



VALLEY GROVE SCHOOL DISTRICT
VENANGO COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MAY 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. Cindy Swendsen, Board President
Valley Grove School District
429 Wiley Avenue
Franklin, Pennsylvania 16323

Dear Governor Corbett and Ms. Swendsen:

We conducted a performance audit of the Valley Grove 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 December 15, 2011 through May 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, 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 significant noncompliance with relevant requirements, as detailed in the three (3) audit findings within this report. A summary of the results is presented in the Executive Summary section of the audit report.

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

May 15, 2014

cc: **VALLEY GROVE 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 Valley Grove School District (District) in Venango 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.

Our audit scope covered the period December 15, 2011 through May 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 958 square miles. According to 2010 federal census data, it serves a resident population of 6,901. According to District officials, the District provided basic educational services to 958 pupils through the employment of 71 teachers, 47 full-time and part-time support personnel, and six (6) administrators during the 2011-12 school year. The District received \$8,922,880 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 (3) compliance related matters reported as findings.

Finding No. 1: Failure to Verify Tuition for Wards of the State and Children Placed in Private Homes to District Membership Data.

Our analysis of the Valley Grove School District's tuition for orphans and children placed in private homes revealed significant variances in the amount of funding received in the 2010-11 and the 2011-12 school years (see page 6).

Finding No. 2: Failure to Have Established Internal Controls Relating to Contracted Bus Drivers' Clearances and Required Board Approval.

Our audit of the Valley Grove School District (District)'s ten (10) school bus drivers' credentials hired since December 2011 revealed one (1) driver with an expired drivers' license and seven (7) drivers without appropriate federal criminal history reports on file. In addition, one (1) bus driver had not been Board approved prior to transporting District students (see page 9).

Finding No. 3: The District Failed to Maintain All Required Documentation to Support State Transportation Reporting.

Our review found that during the 2010-11 school year, the Valley Grove School District's Transportation Director implemented procedural changes that resulted in the lack of supporting documentation for data reported to the Pennsylvania Department of Education

(PDE). In addition, we found noncompliance with PDE reporting instructions (see page 13).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.

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 December 15, 2011 through May 30, 2013, except for the verification of professional employee certification, which was performed for the period October 28, 2011 through May 20, 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?

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

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). Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. 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.

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 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.

Findings and Observations

Finding No. 1

Failure to Verify Tuition for Wards of the State and Children Placed in Private Homes to District Membership Data

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our audit of the Valley Grove School District's (District) controls over data integrity found that internal controls need to be improved. Specifically, our audit found that the District's tuition for wards of the state and children placed in private homes (foster children) revealed fluctuations between the 2009-10 and 2010-11 school years. These fluctuations were caused by the District not accounting for membership days for two (2) students educated in the local intermediate unit.

In addition, we noted that incorrect membership data was reported on the behalf of the District for two (2) additional students. One (1) student was reported incorrectly by the area vocational-technical school (AVTS), and one (1) student was incorrectly reported by a neighboring district.

Additionally, according to the *Federal Information System Controls Audit Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

According to the federal Government Accountability Office's (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."

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 discrepancies were attributed to the District not periodically reviewing their PIMS reports and/or reconciling PDE data to their membership database.

We also noted that neither the business office nor the membership team reconciled the District's tuition for foster children reimbursement to the membership data reported. This internal control breakdown was attributed to three (3) factors. District personnel were unfamiliar with the PIMS' reports, the District failed to reconcile reported information for accuracy, and there was a communication breakdown between the District's staff assigned to membership reporting and the business office, by which neither party informed the other of reported data or receipt of revenue.

It is the responsibility of District management to have in place appropriate internal policies and procedures to ensure that student data is collected, is accurate, and is reported timely to PDE. Without such internal controls, the District cannot be assured the student data it is reporting to PDE is accurate or that it is receiving the correct subsidy reimbursement.

Recommendations

The *Valley Grove School District* should:

1. Develop procedures requiring an annual reconciliation of internal records and with the data reported to PIMS for tuition for orphans and children placed in private homes.
2. Develop an internal control procedure requiring the periodic review of PIMS reports to ensure that all data is properly accounted for and the associated revenue impact is recognized.
3. Implement procedures to ensure that communication is maintained between the District's membership team and administration.
4. Ensure that the District's membership team attends PIMS' conferences and seminars to stay abreast of reporting requirements and disseminates information to the business office, when appropriate.

5. Notify the AVTS and the other involved school district that PIMS corrections will be required after the start of the new school year based on information received from PDE.

Management Response

Management stated the following:

“Valley Grove School District does agree with the findings in the audit period July 1, 2010 to June 30, 2012. The findings were a result of two other school districts incorrectly reporting three 1305 foster nonresident students for those periods. The comment that Valley Grove School District would like to make is that PIMS was in its infancy and some school districts were not as diligent as others in reporting their data. It was brought to our attention that the district of residence is required to monitor other district’s reports. This will be done on a quarterly basis through the IU reports and Venango Technology reports. In the spring, of each year, Valley Grove School District’s PIMS team, including the Business Administrator, attendance secretary and PIMS administrator will review attendance data as it relates to students that are placed outside our school district and other districts reporting of daily membership for those students. Again, Valley Grove School District does have a strong PIMS team in terms of communication and inputting data with regards to district requirements. This is further fine tuning of that process through monitoring what other school districts report.”

Auditor Conclusion

We are encouraged that the District agrees with the finding and will takes steps to address the deficiency. We will follow up on the issue during our next cyclical audit of the District.

Finding No. 2

Failure to Establish Internal Controls Relating to Contracted Bus Drivers' Clearances and Required Board Approval

Criteria relevant to the finding:

As of April 1, 2007, under Act 114 of 2006 as amended (see 24 P.S. § 1-111 (c.1)), public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by the Pennsylvania Department of Education. The review of CHRI reports is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who have contact with children.

All required background check reports shall be no more than one (1) year old at time of determination.

Chapter 23 of the State Board of Education Regulations indicates that the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the Valley Grove School District (District) included the testing of a sample of ten (10) school bus drivers' credentials, all hired since December 2011, to determine the District's compliance with state and federal reporting requirements. Our testwork revealed one (1) driver with an expired drivers' license and seven (7) drivers without federal criminal background checks (Act 114 clearance) on file. In addition, one (1) bus driver had not been Board approved, as required, prior to transporting District students.

The District's Transportation Director attributed the missing license to a clerical error and the missing Act 114 clearances to a misunderstanding of the Public School Code (PSC) in relation to criminal background checks and state and federal clearances expiring in one (1) year.

Our audit also identified internal control weaknesses in the process by which new bus drivers are approved by the Board of School Directors (Board). Audit testwork revealed that the District's Transportation Director had sole responsibility to review new bus drivers' credentials prior to submission to the Board for approval. As a result, a driver was submitted for Board approval in September 2012 who had documented driving violations. The District's Superintendent was informed of the situation prior to the Board meeting, and the resolution for approval was tabled pending additional investigation. However, the contractor was not informed of the tabling, and the contractor erroneously allowed the driver to transport District students without Board approval.

We also learned that neither the District, nor the transportation contractor, required the driver to contact the Pennsylvania State Police regarding the violations. Instead, the District accepted the responsibility to determine the validity of the reported information and eventually learned that the driving violations were erroneously reported. However, the Board was neither informed of the results of the District's investigation, nor did it reconsider and/or approve the driver for employment.

Finally, we noted that in our prior audit, the District provided a memo stating that all future van drivers would be required to have an annual physical. Our current audit found that none of the five (5) sampled van drivers had a physical exam form on file. No explanation was provided as to why the procedure had not been implemented.

It is the responsibility of District management to have in place appropriate internal policies and procedures to ensure that it has on file all required paperwork for persons transporting District students, whether employed directly by the District or contracted drivers. By not having the required bus drivers' credentials on file and by not having appropriate Board approval, the District was unable to provide full assurance that the contracted drivers were qualified to transport students. Utilization of unqualified drivers could present an increased risk to the safety and welfare of the District's students.

As of the end of our fieldwork, the District had received a copy of the driver's current license, obtained one (1) of the seven (7) missing federal criminal background checks, obtained Board approval for the identified driver, and had established procedures to review all drivers' files that were not included in our audit.

Recommendations

The *Valley Grove School District* should:

1. Require the Transportation Director to establish procedures ensuring that all drivers' credentials are maintained current.
2. Develop policies and procedures to ensure that all drivers' credentials are presented in accordance with the PSC and that clearances other than "no record" be presented to administration for determination of acceptability.
3. Review Board-established policy to ensure that contractors are not allowed to utilize any driver in the transportation of students prior to the obtaining of all required credentials, the submission of the credentials to the District for review, and receipt of verification that

the driver has been properly reviewed and Board approved to transport students.

Management Response

Management stated the following:

“The Valley Grove School District recognizes that not all contracted bus drivers’ clearances, specifically the Act 114 FBI background and fingerprinting check, have been fully processed. While files for all drivers did hold the Act 34, Act 151, Act 24 and Act 114, not all files contained the rap sheet that follows the Act 114. In an effort to establish a better internal control process, all clearances, and required driver documentation will be collected and reviewed by the district transportation director. Once all the information is gathered and recorded on the driver checklist, copies will be sent to the District Administration Building for a second review. In addition and when necessary, the secretary to the superintendent will process the Act 114 information to produce a rap sheet for the specific individuals. This information will then be shared with the Director of Transportation so that all records are accurate and complete. The district will only recognize and approve drivers from the prior school year that are submitted to the Board of Education in the Board Meeting prior to the first day of school. Drivers submitted for approval subsequent to this Board Meeting shall be classified as a new hire and be required to submit new clearances. Drivers not approved when submitted for School Board approval due to any concerns shall be resubmitted at a later date for approval. All driver records will be maintained by the Transportation Department and a copy will be filed at the district Administration Building. In addition, the district will address the following:

- Sharing information with contractors: The district will not make available copies of driver clearances to the transportation contractors due to the sensitive nature of information contained in the clearances.
- Sensitive documents: Documents containing sensitive information shall be retained in a secure area. Unnecessary copying and maintaining identical records within the transportation recordkeeping is prohibited. Sensitive information includes but in

not limited to clearances, social security numbers, driver licenses, addresses.

- File review: Due to the audit encompassing only a sample review of the clearances there exists a possibility that the remainder of the clearances may contain undetected problems. The district will review the files of the remaining bus drivers who were not examined by the auditor and will take appropriate action to correct any deficiency in the retention of these files.”

Auditor Conclusion

We are encouraged that the District agrees with our finding and is taking steps to address the deficiencies in internal controls over transportation records. We will follow up on the issue during our next cyclical audit of the District.

Finding No. 3

The District Failed to Maintain All Required Documentation to Support State Transportation Reporting

Criteria relevant to the finding:

Chapter 22 of the State Board of Education Regulations, Section 23.4 states, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following:

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

Instructions for completing the Pennsylvania Department of Education's End-of-Year Pupil Transportation reports provides that the local education agency must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle.

Our review of the Valley Grove School District's (District) 2011-12 school year transportation records found a lack of supporting documentation available to verify that data submitted to the Pennsylvania Department of Education (PDE) was accurate. In addition, we also noted noncompliance with PDE reporting instructions.

Beginning with the 2010-11 school year, changes in the District's transportation reporting procedures resulted in:

- Monthly mileage checks used to compute the sample average of miles with and without pupils were not recorded on a stop-by-stop, tenth of mile basis, as required by PDE.
- Route rosters were not maintained to support the number of pupils assigned per vehicle, required to calculate the weighted averages for the greatest number of pupils assigned at any one time.
- Nonpublic schools were not required to submit letters of request for pupil transportation.
- Student counts for PDE-defined "hazardous routes" were not supported by maps or any other type of information verifying the designation.

Without adherence to PDE's recordkeeping requirements and the lack of supporting documentation for reported data, we were unable to determine with any degree of certainty the propriety of the District's transportation subsidy.

The lack of documentation supporting the transportation reports was a result of a lack of internal controls and of the District employing a new software package to generate the transportation reports data to PDE and then not retaining the supporting documentation, as required.

It is the responsibility of District management to have in place appropriate internal policies and procedures to ensure that transportation data is collected, is accurate, is reported timely to PDE, and is supported with the appropriation documentation, as required. Without such internal controls, the District cannot be assured the transportation data it is

reporting to PDE is accurate or that it is receiving the correct subsidy reimbursement.

Recommendations

The *Valley Grove School District* should:

1. Review the District's current internal transportation policies and procedures and implement necessary revisions to ensure that:
 - a. PDE recordkeeping requirements are maintained;
 - b. Transportation support documentation is maintained for audit;
 - c. Necessary transportation logs are implemented to verify PDE reported vehicle usage;
 - d. Nonpublic schools are required to submit letters of request for pupil transportation prior to the initiation of the school year and ensure that all changes are appropriately documented for yearend supplemental subsidy reporting; and
 - e. Hazardous routes are reviewed, and appropriate procedures are developed to ensure that all hazardous students are properly accounted for and reported to PDE.
2. Allow the District's Transportation Director to attend transportation training, if warranted by Administration.

Management Response

Management stated the following:

“The Valley Grove School District recognizes the lack of supporting documentation and internal controls for reporting State transportation subsidy information that were not presented to the Auditor General's Office during the audit of the fiscal years 11 and 12. The utilization of the software program “Bus Boss” facilitates the recording of transportation data; however, it shall not replace the printed supporting documentation. There are four specific areas that the district will enhance so that more thorough reporting is accomplished.

- Reporting and documentation of route mileage: The district will do an evaluative comparison of monthly mileage for the 2012-13 school years by using the stop-by-stop method and averaging. Back-up documentation for each method will be recorded and filed for future reference. Any bus operated more than the regular school calendar shall be supported by printed documentation for future audit verification purposes.
- Reporting of nonpublic students: The district will receive official student rosters and school calendars from each nonpublic school so that documentation and back-up will support the number of students riding and the number of days that transportation will be needed for each school.
- Hazardous route reporting: Supporting documentation will be provided to verify the total number of transportation routes that are deemed hazardous by the Department of Transportation. In addition, documentation will be maintained that identifies those students who are in the hazardous route areas. Periodic verification will take place during the course of the school year to be sure that records continue to be up-to-date. It will be the responsibility to document all students moving into and out of the designated routes.
- The School Board Transportation Policy shall be submitted to the Board for the following changes:
 1. Remove the words “and/or” contractor from the policy.
 2. Add requirement for drivers to inform the district of any criminal act within 72 hours of the occurrence.
 3. Add requirement for parochial schools to provide a roster of Valley Grove School District students attending the school and identify the students requiring transportation. For maximizing the transportation subsidy all changes for transporting parochial students shall be submitted in writing.
 4. Add requirement for substitute van drivers to obtain a physical each year.”

Auditor Conclusion

We are encouraged that the District recognizes the deficiencies identified in this finding. We will follow up on the changes the District has committed to making in this regard during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Valley Grove School District resulted in no findings or observations.

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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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.