

PERFORMANCE AUDIT

Danville Area School District Montour County, Pennsylvania

June 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Allan Schappert, Board President
Danville Area School District
600 Walnut Street
Danville, Pennsylvania 17821

Dear Governor Wolf and Mr. Schappert:

We conducted a performance audit of the Danville 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 March 23, 2012 through March 4, 2015, except as otherwise stated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011, 2012, 2013, 2014, and 2015. 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 cursive script, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

June 4, 2015

cc: **DANVILLE 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 District. 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 March 23, 2012 through March 4, 2015, 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 2010-11, 2011-12, 2012-13, 2013-14, and 2014-15 school years.

District Background

The District encompasses approximately 120 square miles. According to 2010 federal census data, it serves a resident population of 18,765. According to District officials, the District provided basic educational services to 2,360 pupils through the employment of 194 teachers, 96 full-time and part-time support personnel, and 16 administrators during the 2011-12 school year. The District received \$12,292,738 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. Our audit resulted in no findings or observations.

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 10, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the incorrect reporting of non-resident students (see page 8), making unnecessary leave payout to a former Superintendent (see page 9), and the financing of some of the District's debt with Interest-Rate Management ("SWAP") Agreements (see page 10).

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 March 23, 2012 through March 4, 2015.

Regarding state subsidies and reimbursements, our audit covered the 2010-11, 2011-12, 2012-13, 2013-14, and 2014-15 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 Did the District ensure that bus drivers transporting District children at the time of the audit had 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 5 newest drivers out of the 39 “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 all 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 Were votes made by the District’s Board of School Directors (Board) free from apparent conflicts of interest?

- To address this objective, auditors reviewed all nine of the sitting and recent board members’ employment history, Statements of Financial Interest, board meeting minutes, and any known outside relationships with the District.

Ü Did the District 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 2,360 total registered students (five resident, five non-resident, five intermediate unit, and five area vocational-technical school) from the vendor software listing and verified that each child was appropriately registered with the District.

- In addition, the auditors randomly selected two out of four 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 Were there any declining fund balances that may pose a risk to the District's fiscal viability?

- To address this objective, the auditors reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2005-06 through 2012-13.

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.
- In addition, the auditors conducted on-site reviews at two out of the District's four school buildings to assess whether they had implemented basic physical safety practices based on national best practices.

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

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, and comparative financial information.

Our audit examined the following:

- Bus driver qualifications and financial stability.
- 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 10, 2013, we reviewed the District's response to PDE dated August 13, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the District released on July 10, 2013, resulted in one finding and two observations. The finding pertained to incorrect reporting of non-resident students. The first observation pertained to making an unnecessary leave payout to a former Superintendent, and the second observation pertained to the District financing some of its debt with Interest-Rate Management (“SWAP”) Agreements. 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 finding and observations. As shown below, we found that the District did implement our recommendations related to incorrect reporting of non-resident students, making an unnecessary leave payout to a former Superintendent, and the District financing some of its debt with Interest-Rate Management (“SWAP”) Agreements.

Auditor General Performance Audit Report Released on July 10, 2013

Finding: **Incorrect Reporting of Non-resident Students Resulted in the District Being Underpaid \$16,906**

Finding Summary: Our prior audit of the District found that District personnel failed to report membership to PDE for two students who were wards of the state for the 2008-09 school year, resulting in the District being underpaid \$16,906 in Commonwealth-paid tuition.

Recommendations: Our audit finding recommended that the District should:

1. Provide regular in-service training to staff responsible for recording and reporting membership. This training should emphasize the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements.
2. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
4. Review subsequent years’ reports and, if errors are found, submit revised reports to PDE.

We also recommended that PDE should:

5. Adjust the District's future allocations to recover the underpayment.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. District personnel perform reviews of membership reports prior to submission to PDE to ensure accuracy.

As of our fieldwork completion date, March 4, 2015, PDE had not yet adjusted the District's allocations to resolve the underpayment.

Observation No. 1: District Made an Unnecessary Leave Payout to Former Superintendent

Observation Summary:

Our prior audit found that on August 14, 2007, the Board of the District entered into an employment contract (Contract) with an individual to serve as the District's Superintendent (former Superintendent). The Contract had a term of three years, from August 20, 2007 through August 19, 2010. On January 12, 2010, the former Superintendent submitted a letter of intent to resign effective June 30, 2010. The former Superintendent was paid for 26 unused vacation days for a total of \$10,858. However, neither her contract nor the District's Act 93 agreement stipulated that she should be paid any amount for unused vacation pay. Therefore, her leave payout was unnecessary.

Recommendations:

Our audit observation recommended that the District should:

1. Ensure that future employment contracts are followed to protect the interests of the District's taxpayers.
2. Establish internal controls to ensure that the District's Board is made aware of all administrative payments.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. The District's Business Manager reviews all leave payouts referencing contractual language.

Observation No. 2: The District Financed Some of Its Debt with Interest-Rate Management (“SWAP”) Agreements

Observation Summary: Our prior audit found that on August 21, 2007, the District entered into a “SWAP” agreement related to its issuance of \$7,000,000 in bonds. The District terminated its “SWAP” agreement effective May 25, 2011, and paid \$1,342,040 in termination fees.

Recommendations: Our audit observation recommended that the District should:

Consider all the risks, including potential termination fees, when entering into any new “SWAP” agreements in the future.

Current Status: During our current audit, we found that the District has not entered into any new “SWAP” agreements.

Distribution List

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
Acting Secretary of Education
1010 Harristown Building #2
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This report is a matter of public record and is available online at www.PaAuditor.gov. 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@PaAuditor.gov.