

PERFORMANCE AUDIT

Lehigh Area School District Carbon 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

Ms. Gloria Bowman, Board President
Lehigh Area School District
1000 Union Street
Lehigh, Pennsylvania 18235

Dear Governor Wolf and Ms. Bowman:

We conducted a performance audit of the Lehigh 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 5, 2013 through March 24, 2015, except as otherwise stated in the report. 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

June 11, 2015

cc: **LEHIGH 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, 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 5, 2013 through March 24, 2015, except as otherwise stated in the audit scope, objectives, and methodology section of the report.

District Background

The District encompasses approximately 65 square miles. According to 2010 federal census data, it serves a resident population of 19,353. According to District officials, the District provided basic educational services to 2,365 pupils through the employment of 190 teachers, 122 full-time and part-time support personnel, and 15 administrators during the 2013-14 school year. The District received \$14,195,057 in state funding in the 2013-14 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 December 4, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to a Memorandum of Understanding (MOU) with the District's former Superintendent that resulted in a questionable use of taxpayer funds (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 March 5, 2013 through March 24, 2015.

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 have 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 all five new drivers from the current school year and worked backwards to the last time the Bureau of School Audits audited the District

and their compliance in this area. The auditors ensured that all of the new drivers not reviewed during the previous audit were selected for review and included both district-employed and 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 free from apparent conflicts of interest?

- To address this objective, the 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 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 2013-14.

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.

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:

- Records pertaining to bus driver qualifications, state ethics compliance, 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 December 4, 2013, we reviewed the District's response to PDE dated February 3, 2015. 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 December 4, 2013, resulted in one finding. The finding pertained to the District entering into a MOU with its former Superintendent that resulted in a questionable use of taxpayer funds. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and conducted interviews with District personnel regarding the finding. As shown below, we found that the District did implement our recommendations related to the finding.

Auditor General Performance Audit Report Released on December 4, 2013

Finding: **District Entered into Memorandum of Understanding With Its Former Superintendent Resulting in a Questionable Use of Taxpayer Funds**

Finding Summary: Our prior audit found that the District employed a consultant to serve as the District's de facto Superintendent for three months, while simultaneously paying its former Superintendent his full-time salary. In addition, the former Superintendent's duties and responsibilities during this three-month period were unclear. The District was unable to produce any documentation to substantiate his role. However, descriptions provided by District personnel indicated that the former Superintendent's activities were actually less than half-time. As a result, the District violated the Public School Employees' Retirement System's (PSERS) regulations during that three-month period by continuing to report the former Superintendent's wages as a full-time employee, when in fact he was working less than half-time.

Recommendations: Our audit finding recommended that the District should:

1. Avoid entering into agreements that will cause the District's taxpayers to be charged twice for the same services and that allow employees to be paid full-time wages for less than full-time work.
2. Provide as much information as possible to the taxpayers of the District explaining the reasons for entering into the MOU with the former Superintendent and justifying the District's expenditure of public funds for this purpose.
3. Implement procedures for reviewing all salary and contribution reports to ensure that only eligible wages are being reported to PSERS for retirement contributions.

We also recommended that PSERS should:

4. Review the propriety of the wages for the above-mentioned employee and make any necessary adjustments.

Current Status:

During our current audit, we found that the District did implement our recommendations. The District in its response to the finding stated as part of the plan moving forward that the District will ensure that current and new school board members receive notice of this finding.

PSERS agreed with our finding and determined that salary of \$29,840, which calculates to \$1,940 in retirement contributions, would be removed from the former Superintendent's account.

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
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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.