

CANON-MCMILLAN SCHOOL DISTRICT
WASHINGTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2012

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Darla Bowman-Monaco, Board President
Canon-McMillan School District
One North Jefferson Avenue
Canonsburg, Pennsylvania 15317

Dear Governor Corbett and Ms. Bowman-Monaco:

We conducted a performance audit of the Canon-McMillan School District (CMSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 28, 2010 through August 18, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 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 CMSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with CMSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CMSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CMSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 1, 2012

cc: **CANON-MCMILLAN SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Canon-McMillan School District (CMSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures, and to determine the status of corrective action taken by the CMSD in response to our prior audit recommendations.

Our audit scope covered the period April 28, 2010 through August 18, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

District Background

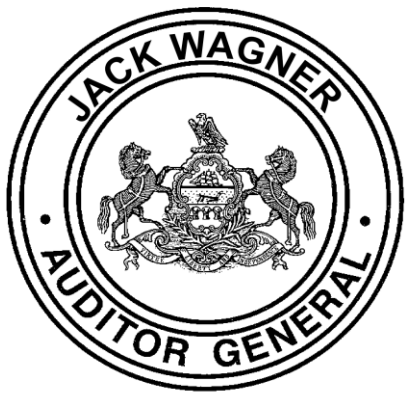
The CMSD encompasses approximately 54 square miles. According to 2000 federal census data, it serves a resident population of 28,420. According to District officials, in school year 2009-10 the CMSD provided basic educational services to 4,853 pupils through the employment of 328 teachers, 228 full-time and part-time support personnel, and 26 administrators. Lastly, the CMSD received more than \$16.7 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the CMSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Pupil Transportation Reporting Errors Resulted in an Underpayment of \$53,078. Our audit of pupil transportation data for the 2009-2010 and 2008-09 school years found errors in the contractor cost data reported to the Pennsylvania Department of Education for the 2008-09 school year (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the CMSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the CMSD had taken appropriate corrective action in implementing our recommendations pertaining to bus driver qualifications policy (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 28, 2010 through August 18, 2011, except for the verification of professional employee certification which was performed for the period September 1, 2010 through June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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 CMSD's compliance with applicable state laws, 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 receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Is the District’s pupil transportation department, including any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

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 applicable laws, 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

CMSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

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 membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes, pupil membership records and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with CMSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 13, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

Criteria relevant to the finding:

PDE instructions for reporting contractor cost data on the end-of-year pupil transportation reports specify that districts are to report the total amount paid to the contractor, including costs incurred by the district to purchase fuel for the contractor.

Pupil Transportation Reporting Errors Resulted in an Underpayment of \$53,078

Our audit of pupil transportation data for the 2009-10 and 2008-09 school year found errors in the contractor cost data reported to the Pennsylvania Department of Education (PDE) for the 2008-09 school year. The errors resulted in a \$53,078 underpayment in transportation subsidy.

Contractor cost data for 6 of the 7 contractors was understated by a total of \$71,520 because the District personnel incorrectly reported the daily rate paid to the contractors, instead of the total amount paid to contractors. Pupil transportation costs were therefore understated by \$71,520. Transportation subsidy is limited to the lesser of costs or state formula. The subsidy was limited to state formula for one contractor; as a result, the total underpayment to the District was \$53,078.

Contractor cost data is an integral part of the transportation subsidy formula and must be reported accurately and in accordance with PDE instructions to ensure the correct subsidy is received.

We have provided PDE with a report detailing the errors for use in recalculating the District's transportation subsidy.

Recommendations

The *Canon-McMillan School District* should:

1. Report contractor cost data in accordance with PDE instructions.
2. Review reports submitted to PDE for the years subsequent to the audit period and submit revised reports if errors are found.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to resolve the \$53,078 transportation subsidy underpayment.

Management Response

Management stated the following:

1. This information was shared with the Board of School Directors.
2. Corrective action and performance deficiencies will be addressed with the appropriate Administrator responsible for the error.
3. Management had added additional internal controls to prevent this error from occurring in the future. The responsible Administrator will need to provide backup documentation to support the amount reported for contractors prior to a supervisor or designee prior to submission of the PDE 2576 [transportation] report.

Status of Prior Audit Findings and Observations

Our prior audit of the Canon-McMillan School District (CMSD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to internal control weaknesses in administrative policies regarding bus driver qualifications. 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 questioned District personnel regarding the prior observation. As shown below, we found that the CMSD did implement recommendations related to bus driver qualification policy.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation: **Internal Control Weaknesses in Administrative Policies Regarding Bus Driver Qualifications**

Observation

Summary:

Our prior audit found that neither the District nor the District's transportation contractors had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of a serious criminal offense.

Recommendations:

Our audit observation recommended that the CMSD:

1. Develop a process to determine, on a case to case basis, whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect suitability to have direct contact with children.
2. Implement written policies and procedures to ensure the District is notified when current employees are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children, and to ensure the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Current Status:

During our current audit procedures we found that the CMSD did implement the recommendations. The District implemented a policy requiring that the District be notified if a driver is charged with or convicted of a crime, and also implemented a policy that defines the duties of the supervisor of transportation.

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

The Honorable Tom Corbett
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