

ELIZABETH FORWARD SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2011

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

Mrs. Margaret Morgan, Board President
Elizabeth Forward School District
401 Rock Run Road
Elizabeth, Pennsylvania 15037

Dear Governor Corbett and Mrs. Morgan:

We conducted a performance audit of the Elizabeth Forward School District (EFSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 24, 2009 through December 23, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. 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 EFSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

October 25, 2011

cc: **ELIZABETH FORWARD 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 Elizabeth Forward School District (EFSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the EFSD in response to our prior audit recommendations.

Our audit scope covered the period March 24, 2009 through December 23, 2010, 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 2007-08 and 2006-07.

District Background

The EFSD encompasses approximately 35 square miles. According to 2000 federal census data, it serves a resident population of 19,210. According to District officials, in school year 2007-08 the EFSD provided basic educational services to 2,718 pupils through the employment of 223 teachers, 129 full-time and part-time support personnel, and 18 administrators. Lastly, the EFSD received more than \$13.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the EFSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, one matter unrelated to compliance is reported as an observation.

Finding: District Reports a General Fund Deficit for Fiscal Year Ended

June 30, 2010. Our review of the EFSD financial reports found a general fund deficit of \$640,856 as of June 30, 2010 (see page 6).

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

Our audit found that the EFSD and its transportation contractor do not have written policies and procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purposes of determining an individual's continued suitability to be in direct contact with children (see page 8).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the EFSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the EFSD had taken appropriate corrective action in implementing our recommendations pertaining to a Memorandum of Understanding not being updated timely (see page 10).



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 March 24, 2009 through December 23, 2010, except for the verification of professional employee certification which was performed for the period December 31, 2008 through November 24, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 Department of Education (DE) 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 law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the EFSD's compliance with applicable 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?
- ✓ 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 buyout 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, 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 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.

EFSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, 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 bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 26, 2010, we reviewed the EFSD's response to DE dated November 17, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

District Reports a General Fund Deficit for Fiscal Year Ended June 30, 2010

Criteria relevant to the finding:

Section 609 of the Public School Code provides, in part:

No work shall be hired to be done, no materials purchased, and no contracts made by any board of the school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

Our review of the District's annual financial reports, local auditor's report, and general fund budgets for the fiscal years ended June 30, 2010, 2009 and 2008 found that the District reported a general fund deficit in the last fiscal year, as shown in the following schedule:

<u>Fiscal Year Ending June 30</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>General Fund Surplus (Deficit)</u>
2007	\$ -	\$ -	\$1,231,935
2008	31,717,223	33,129,628	(180,470)
2009	*38,369,218	36,878,006	1,310,742
2010	35,017,959	36,969,561	(640,860)

* Includes a \$305,615 prior period adjustment made during this year which represents prior period revenue accruals and prepaid expenses of the District.

The factors that contributed to the general fund deficit are as follows:

1. In the 2010 school year, the District had assessment appeals that reduced taxable real property by approximately seven million dollars.
2. In January 2010, the District paid \$800,000 to the U.S. Treasury as final settlement with the Internal Revenue Service (IRS) on the 1995 series A and B arbitrage. The IRS contended that these were considered to be arbitrage bonds for which interest was not excludable from gross income. The bond counsel reimbursed the District \$348,000.

3. The District failed to control expenditures in accordance with the general fund budgets. The following schedule details total actual expenditures in excess of budgeted expenditures:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Budgeted</u> <u>Expenditures</u>	<u>Actual</u> <u>Expenditures</u>	<u>Over</u> <u>Expenditures</u>
2008	\$31,470,485	\$33,129,628	\$(1,659,143)
2009	32,826,131	36,878,006	(4,051,875)
2010	35,939,580	36,969,561	(1,029,981)

The highest variances were expenditures for regular programs, special programs, administrative services, and operation and maintenance of plant services.

Recommendations

The *Elizabeth Forward School District* should:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for the current operations and limit them to revenues received and the amount appropriated.
3. Provide for a systematic reduction of the general fund deficit.

Management Response

Management provided a response agreeing with the finding and making no further comment.

Observation

Criteria relevant to the observation:

Public School Code Section 111 (24 P.S. 1-111) requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 Pa. C.S. 6355, requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

During our current audit, we reviewed documentation for five newly hired bus drivers currently employed by the District's transportation contractor. We found that these individuals possessed the minimum requirements to be employed as bus drivers and the District had on file the required report of criminal history record information and the official child abuse clearance statement for the drivers selected for review.

However, we found that neither the District nor its transportation contractor have implemented written procedures to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses that should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations

The Elizabeth Forward School District should:

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

Management Response

Management stated the following:

Management is in the process of updating several policies. There are compensating controls regarding this observation.

Status of Prior Audit Findings and Observations

Our prior audit of the Elizabeth Forward School District (EFSD) for the school years 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to a Memorandum of Understanding (MOU) not being updated timely. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the EFSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the EFSD did implement recommendations related to the MOU not being updated timely.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Observation: Memoranda of Understanding Not Updated Timely

Observation

Summary:

Our prior audit found that the MOU between the District and local law enforcement agencies had not been updated since June 27, 1996.

Recommendations:

Our audit observation recommended that the EFSD:

Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit procedures, we found that the EFSD did implement the recommendation.

Distribution List

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

The Honorable Tom Corbett
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
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The Honorable Robert M. McCord
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

