



**NEWPORT SCHOOL DISTRICT
PERRY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

APRIL 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Robert H. Folk, Jr., Board President
Newport School District
420 Fickes Lane, P.O. Box 9
Newport, Pennsylvania 17074

Dear Governor Corbett and Mr. Folk:

We conducted a performance audit of the Newport School District (NSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 26, 2010, through July 18, 2012, 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 NSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in 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 observation and recommendations have been discussed with the NSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve the NSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NSD's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

April 24, 2013

cc: NEWPORT 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 Newport School District (NSD). 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 NSD in response to our prior audit recommendations.

Our audit scope covered the period March 26, 2010, through July 18, 2012, 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 NSD encompasses approximately 72 square miles. According to 2010 local census data, it serves a resident population of 7,451. According to District officials, in school year 2009-10 the NSD provided basic educational services to 1,173 pupils through the employment of 110 teachers, 52 full-time and part-time support personnel, and 9 administrators. Lastly, the NSD received more than \$8.2 million in state funding in school year 2009-10.

Audit Conclusion and Results

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

Observation: Memorandum of Understanding Not Updated Timely. Our audit of the NSD's records found that the current Memorandum of Understanding between the NSD and the local police department was signed January 19, 2010, and was not updated on a timely basis (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found NSD had not hired a new administrator since the prior audit and has not had the opportunity to implement our recommendations (see page 8). Furthermore, we found the NSD had taken appropriate corrective action in implementing our recommendations for the finding pertaining to school bus drivers lacking required clearances (see page 9).



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 Pennsylvania 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 26, 2010, through July 18, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011, through June 30, 2012.

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 NSD'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?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ 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 members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation and conclusions based on our audit objectives.

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.

NSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the NSD is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any IT controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant agreements and administrative procedures 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 control 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/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications and professional employee certification.
- Items such as board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 25, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

The Public School Code (PSC) and criteria relevant to the observation:

Section 13-1303-A(c) of the PSC, as amended November 17, 2010, provides, in part:

“ . . . each chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis. . . .”

Memorandum of Understanding Not Updated Timely

Our audit found that the Memorandum of Understanding (MOU) between the Newport School District (NSD) and one police department with jurisdiction over school property was signed on January 19, 2010. The Public School Code (PSC) requires public schools to update and re-execute MOUs with local law enforcement every two years. On July 12, 2012, while the auditor was on site, the NSD updated their MOU.

The failure to update a signed MOU with local law enforcement agencies could result in a lack of cooperation, direction, and guidance between the NSD employees and the police departments if an incident occurs on school grounds, at any school-sponsored activity, or any public conveyance providing transportation to or from a school or school-sponsored activity. Non-compliance with the statutory requirement to biennially update and re-execute a MOU could have an impact on police department notification and response, and ultimately, the resolution of a problem situation.

Recommendations

The effective date of this amended provision was **February 15, 2011**. The “office” refers to the Office for Safe Schools within the Pennsylvania Department of Education. The term “biennially” means “an event that occurs every two years.”

Prior to enactment of additional Memorandum of Understanding (MOU) requirements on November 7, 2010, all public schools were required to develop a memorandum of understanding with local law enforcement.

The *Newport School District* should:

1. In consultation with the NSD’s solicitor, continue to review, update, and re-execute the current MOU between the NSD and the local police department having jurisdiction over school property.
2. In consultation with the NSD’s solicitor, review new requirements for MOUs and other school safety areas under the PSC to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
3. Adopt an official board policy requiring NSD administration to biennially update and re-execute all MOUs with police departments having jurisdiction over school property and file a copy with the Pennsylvania Department of Education’s Office of Safe Schools on a biennial basis as required by law.

Management Response

Management stated the following:

We will have the MOU done annually.

Status of Prior Audit Findings and Observations

Our prior audit of the Newport School District (NSD) for the school years 2007-08 and 2006-07 resulted in two reported findings. The first finding pertained to inadequate provisions in its employment contract with the Superintendent, and the second pertained to school bus drivers lacking required clearances. As part of our current audit, we determined the status of corrective action taken by the NSD to implement our prior recommendations. We performed audit procedures, and questioned NSD's personnel regarding the prior findings. As shown below, we found that the NSD has not had the opportunity to implement our recommendations regarding inadequate provisions in its employment contracts with the Superintendent and did implement recommendations related to school bus drivers lacking required clearances.

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

Finding No. 1: The Board Did Not Include Adequate Provisions in its Employment Contract with the Superintendent, Leading to a Costly and Confidential Buy-out of \$105,892 and Replacement Costs of \$231,914

Finding Summary: Our prior audit found that on February 17, 2009, the board of school directors (Board) of the NSD entered into an employment contract (Contract) with an individual (Superintendent) to serve as the NSD's superintendent. The first Contract between the parties, for a term of three years, ended on June 30, 2009. The second Contract had a term of three years, from July 1, 2009 to June 30, 2012. The Contract provided the Superintendent with annual compensation of \$99,303 for the first year of employment, as well as a variety of benefits. The Superintendent's annual salary would increase by set percentages based on satisfactory performance evaluations by the Board. The Contract also provided a variety of employment benefits to the Superintendent.

On December 22, 2009, the Board approved a Settlement Agreement and Release with the Superintendent, which terminated his employment with the NSD effective December 31, 2009.

Recommendations: Our audit finding recommended that the NSD:

1. Ensure that future employment contracts with prospective administrators contain adequate termination provisions sufficient to protect the interests of the NSD and its taxpayers in the event that the employment ends prematurely for any reason.

2. Provide as much information as possible to the taxpayers of the NSD explaining the reasons for the termination of the Superintendent's Contract and justifying the NSD's expenditure of public funds to buy-out the Contract.
3. Work with successors to the Superintendent to include in current and future employment contracts provisions that address the compensation and benefits payable to, or on behalf of, said administrator in the event of a premature termination of his/her Contract.

Current Status: During our current audit procedures, we found that the NSD has not had the opportunity to implement our recommendations since no new administrator contracts have been issued since the release of our prior audit report.

Finding No. 2: School Bus Drivers Lacked Required Clearances

Finding Summary: Our prior audit of the NSD's transportation contractor's bus driver files for the 2009-10 school year found the NSD did not obtain the Pennsylvania criminal background check for two drivers who were transporting NSD students. Additionally, the NSD did not obtain child abuse clearance statements as required by law for two other drivers who were transporting NSD students.

Recommendations: Our audit finding recommended that the NSD and administration should:

Ensure that files documenting bus drivers' qualifications are up-to-date and complete. Any file found to be lacking required documentation should be updated immediately.

Current Status: During our current audit procedures, we found that the NSD did implement the recommendations. The NSD now requires all the necessary paperwork on the bus drivers be obtained prior to having them board approved. Beginning with the 2010-11 school year, the NSD started to monitor clearances through their software program.



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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Tom Templeton
Assistant Executive Director
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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