

NORTH ALLEGHENY SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Maureen Grosheider, Board President
North Allegheny School District
200 Hillvue Lane
Pittsburgh, Pennsylvania 15237

Dear Governor Rendell and Ms. Grosheider:

We conducted a performance audit of the North Allegheny School District (NASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 2, 2007 through July 23, 2009, 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, 2007, 2006 and 2005. 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 NASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one 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 NASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NASD's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

January 22, 2010

/s/
JACK WAGNER
Auditor General

cc: **NORTH ALLEGHENY 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 North Allegheny School District (NASD). 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 NASD in response to our prior audit recommendations.

Our audit scope covered the period March 2, 2007 through July 23, 2009, 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, 2006-07, 2005-06 and 2004-05.

District Background

The NASD encompasses approximately 45 square miles. According to 2000 federal census data, it serves a resident population of 47,531. According to District officials, in school year 2007-08 the NASD provided basic educational services to 8,054 pupils through the employment of 622 teachers, 408 full-time and part-time support personnel, and 38 administrators. Lastly, the NASD received more than \$19.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the NASD 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: Errors in Reporting Pupil Transportation Data Resulted in a Net Overpayment of \$26,950. Our audit of pupil transportation data submitted to the Department of Education for the 2004-05 school year found errors in the number of nonpublic pupils reported for reimbursement (see page 6).

Observation: Memoranda of Understanding Not Updated Timely. Our audit found that the Memoranda of Understanding between the NASD and the Franklin Park, Town of McCandless, and Pine Marshall police departments had not been updated since March 2, 2001 (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found that, the NASD had taken some corrective action in implementing our recommendations pertaining to transportation data, errors in data reported for the 2004-05 school year were not corrected (see page 10). However, we found that NASD did take appropriate corrective action pertaining to our recommendations to

Social Security and Medicare wages and certification (see page 11).

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 2, 2007 through July 23, 2009, except for the verification of professional employee certification which was performed for the period December 14, 2006 through June 30, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 NASD'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?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

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.

- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

NASD 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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 4, 2008, we reviewed the NASD's response to DE dated December 10, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

Errors in Reporting Pupil Transportation Data Resulted in an Overpayment of \$26,950

Criteria relevant to this finding:

Department of Education (DE) instructions state:

Report the total number of resident, NONPUBLIC school pupils you transport to and from school. Documentation identifying the names of these pupils should be retained for review by the Auditor General's staff. Nonpublic school pupils are children whose parents are paying tuition for them to attend a nonprofit private or parochial school. (Any child that your district is financially responsible to educate is a PUBLIC pupil.)

Our audit of pupil transportation data submitted to DE for the 2004-05 school year found errors in the number of nonpublic pupils reported for reimbursement. This resulted in an overpayment of \$26,950 in nonpublic transportation subsidy.

This represented a continuation, for the 2004-05 school year only, of errors addressed in our prior audit report (see page 10). We did not find any errors in the other school years audited.

The District incorrectly reported pupils attending special needs schools and pupils that did not ride a bus as nonpublic pupils transported, which resulted in an overstatement of 69 nonpublic pupils. In addition, the District overstated the number of charter school pupils transported by one.

We have provided DE with a report detailing the errors for use in recomputing the District's nonpublic transportation subsidy.

Recommendations

The *North Allegheny School District* should:

Continue to require District personnel responsible for compiling pupil transportation data to review the data prior to submission of reports to DE to ensure the accuracy of the reports.

The *Department of Education* should:

Adjust the District's allocations to recover the subsidy overpayment of \$26,950.

Management Response

Management stated the following:

From discussions with the Auditors and [the transportation director], the prior auditor told [the transportation director] that the district could not make the adjustment since the year was closed. The item was rectified during the last audit. A finding is not warranted.

Auditor Clarification

School districts are not permitted to revise data reported to DE for school years we have begun auditing. Any significant errors found during our audits are included as a finding in our audit report, and we report the errors to DE.

This restriction would have applied to the 2003-04 and 2002-03 school years during our prior audit fieldwork. However, as detailed on page 10 of this report, we specifically recommended that the District review records for subsequent school years and revise reports, if necessary, before our next audit. The failure of the District to do so resulted in our current finding for the 2004-05 school year. We note that the error did not occur in the 2007-08, 2006-07 or 2005-06 school years.

Observation →

Criteria relevant to this observation:

Section 1303A-(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property.

Additionally, the Basic Education Circular (BEC) issued by DE entitled Safe Schools and Possession of Weapons contains a sample MOU to be used by school entities. Section VI, General Provisions, item B of this sample states:

This Memorandum may be amended, expanded, or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Memoranda of Understanding Not Updated Timely

Our audit found that the Memoranda of Understanding (MOU) between the District and the Franklin Park, Town of McCandless, and Pine Marshall police departments had not been reviewed and updated since March 2, 2001.

The failure to update the MOUs with the local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

District officials addressed this issue when we brought it to their attention, and as of August 3, 2009, the District had an updated signed copy of the MOU with the three local law enforcement agencies.

Recommendations

The *North Allegheny School District* should:

1. Continue to review, update and re-execute the MOU between the District and local law enforcement agencies.
2. Adopt a written policy requiring the administration to review and execute the MOU every two years.

Response of Management

Management stated the following:

The observation is in regard to the Memorandum of Understanding (MOU). Although there is not a current Basic Education Circular (BEC) on the requirement to have the MOU renewed every two years, the State Auditors are required to issue an observation if not in compliance with their guidelines.

Auditor Clarification

The BEC referred to in our observation appears on DE's website, which states that all BECs published on the website are in effect until revised or removed.

As stated in our observation, the sample MOU issued by DE suggests MOUs should be updated at least every two years, and we concur with this suggestion.

Status of Prior Audit Findings and Observations

Our prior audit of the North Allegheny School District (NASD) for the school years 2003-04 and 2002-03 resulted in three reported findings. The first finding pertained to student transportation, the second to Social Security and Medicare wages reporting, and the third to certification deficiencies. 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 NASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the NASD did implement recommendations related to Social Security and Medicare wages and certification deficiencies. Errors pertaining to transportation data continued for the 2004-05 school year.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>1. Finding No.1: Errors in Reporting Pupil Transportation Data Resulted in a Net Overpayment of \$45,432</i></u></p> <ol style="list-style-type: none"> 1. Require District personnel responsible for compiling pupil transportation data to strengthen their system of review to ensure accuracy of transportation data reported to DE. 2. Require District personnel to review transportation records submitted for subsequent school years, revise reports if necessary, and re-submit them to DE. 3. DE should adjust the District's allocations to recover the net subsidy overpayment of \$45,432. 	<p>Background:</p> <p>Our prior audit of pupil transportation data submitted to DE for the 2003-04 and 2002-03 school years found reporting errors. The errors resulted in a net overpayment of \$14,632 in nonpublic transportation subsidy for the 2003-04 school year and an overpayment of \$30,800 for the 2002-03 school year.</p> <p>The errors occurred because the District incorrectly reported pupils that should have been classified as public pupils as nonpublic pupils.</p>	<p>Current Status:</p> <p>Our current audit found that the District incorrectly reported transportation data for the 2004-05 school year. Subsequent school years were correctly reported (see page 6).</p> <p>As of July 23, 2009, DE had not taken action to recover the \$45,432 overpayment. We again recommend that DE make the adjustment.</p>

<p><u>II. Finding No. 2: Errors in Reporting Social Security and Medicare Wages Resulted in Overpayments Totaling \$39,670</u></p> <ol style="list-style-type: none"> 1. Comply with DE instructions for reporting wages paid with federal funds. 2. Review reports submitted after our audit period for inclusion of federal wages and re-submit reports to DE, if necessary. 3. DE should adjust the District's allocations to correct the reimbursement overpayments of \$39,670. 	<p>Background:</p> <p>Our prior audit of Social Security and Medicare wages for the 2003-04 and 2002-03 school years found that wages were incorrectly reported to DE, resulting in reimbursement overpayments totaling \$39,670.</p>	<p>Current Status:</p> <p>Our current audit found that the District followed DE's instructions for correctly reporting Social Security and Medicare wages.</p> <p>As of July 23, 2009, DE had not made any adjustments to recover the \$39,670 overpayment. We again recommend that DE do so.</p>
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<p><u>III. Finding No. 3: Certification Deficiencies</u></p> <ol style="list-style-type: none"> 1. Put procedures in place to ensure all professional employees with provisional certificates obtain permanent certification prior to the expiration of the provisional certificates. 2. DE should adjust the District's allocations to recover the subsidy forfeitures of \$14,510. 	<p>Background:</p> <p>Our prior audit of the District's professional employees' certificates and assignments for the period August 1, 2004 through December 14, 2006, found that two professional employees' provisional (Level One) certificates had lapsed.</p>	<p>Current Status:</p> <p>Our current audit found that the two employees with lapsed certificates subsequently obtained permanent certification. Current employees are properly certificated.</p> <p>DE had not adjusted the District's subsidy to recover the subsidy forfeitures of \$14,510 as of July 23, 2009. We again recommend that DE do so.</p>
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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:

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