

OSWAYO VALLEY SCHOOL DISTRICT
POTTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2012

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

Mr. Tim Ford, Board President
Oswayo Valley School District
277 South Oswayo Street
Shinglehouse, Pennsylvania 16748

Dear Governor Corbett and Mr. Ford:

We conducted a performance audit of the Oswayo Valley School District (OVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 16, 2008 through January 13, 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, 2009, 2008 and 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 OVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one 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 OVSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve OVSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the OVSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

August 13, 2012

cc: **OSWAYO VALLEY 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 Oswayo Valley School District (OVSD). 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 OVSD in response to our prior audit recommendations.

Our audit scope covered the period May 16, 2008 through January 13, 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, 2008-09, 2007-08 and 2006-07.

District Background

The OVSD encompasses approximately 125 square miles. According to 2000 federal census data, it serves a resident population of 3,738. According to District officials, in school year 2009-10 the OVSD provided basic educational services to 535 pupils through the employment of 42 teachers, 28 full-time and part-time support personnel, and 3 administrators. Lastly, the OVSD received more than \$4.7 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the OVSD 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: Failure to Have All School Bus Drivers' Qualifications on File.

The OVSD failed to have on file all of the required documents for two of their school bus drivers (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the OVSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the OVSD had taken appropriate corrective action in implementing our recommendations pertaining to nonresident pupil membership (see page 8), pupil transportation (see page 9), and an untimely Memorandum of Understanding (see page 10). However, the OVSD failed to implement our recommendations relating to the filing of Statements of Financial Interests (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 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 May 16, 2008 through January 13, 2012, except for the verification of professional employee certification, which was performed for the period from July 1, 2011 through October 13, 2011.

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

- ✓ 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, are 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?
- ✓ Is the District taking 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

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.

OVSD 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. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 21, 2009, we reviewed the OVSD's response to PDE dated April 13, 2009. We then performed additional audit procedures targeting the previously reported matter.

Findings and Observations

Finding →

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's licenses and passing a physical examination.

Section 111 of the Public School Code 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 for certain criminal offenses that, depending on when the offenses occurred, would prohibit the individual from being hired.

Section 111 also requires an FBI fingerprint record check for all employees hired on or after April 1, 2007

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

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the Oswayo Valley School District's (OVSD) bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of the audit.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The purpose of these requirements is to ensure the safety and welfare of the students transported in school vehicles.

We reviewed the personnel records of the three new drivers approved since the prior audit. Our review found that the OVSD did not have on file, at the time of the audit, the federal criminal history records (FBI check) for two drivers. The OVSD did have the receipts of registration on file, but did not have the proper FBI record. The error occurred because District personnel failed to print a copy of the record for their files.

On October 27, 2011, we informed OVSD management of the missing documentation and instructed them to obtain the necessary documents so that they can prove the drivers are properly qualified to have direct contact with children. As of the end of our fieldwork, January 13, 2012, OVSD management was unable to provide us with the necessary documentation because the dates on the receipts were over one year old and access to the drivers' rap sheets was denied. Therefore, we were unable to verify that the two drivers were properly qualified to have direct contact with children.

Recommendations

The *Oswayo Valley School District* should:

Obtain a copy of the required documentation.

Management Response

Management waived the opportunity to reply at the time of our audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Oswayo Valley School District (OVSD) for the school years 2005-06 and 2004-05 resulted in three reported findings and one observation as shown below. 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 OVSD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the OVSD did implement recommendations related to nonresident pupil membership, pupil transportation, and a Memorandum of Understanding that had not been updated. However, the District failed to implement our recommendations relating to the filing of Statements of Financial Interests.

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

Finding No. 1: Errors in Reporting Nonresident Pupil Membership

Finding Summary: Our prior audit of pupil membership reports submitted to PDE for the 2004-05 school year found errors in the reporting of nonresident pupil membership. These errors resulted in an underpayment of \$8,194 in Commonwealth-paid tuition for children placed in private homes to OVSD.

Because errors also involved a student from Coudersport Area School District (CASD) attending OVSD classes, we determined that CASD was also underpaid.

Recommendations: Our audit finding recommended that the OVSD:

1. Perform a thorough internal review of membership data to ensure nonresident membership classification is accurately reported to PDE.
2. Review membership reports submitted subsequent to our audit and submit revised reports if necessary.

Our audit finding also recommended that PDE:

3. Adjust the OVSD's future allocations to correct the underpayment of \$8,194.
4. Adjust the CASD's future allocations to correct the underpayment.

Current Status: During our current audit procedures we found that the OVSD did not implement the recommendations.

As of January 31, 2012, the underpayments were still pending final adjustment by PDE.

Finding No. 2: Board Members Failed to File Statements of Financial Interests in Violation of the Ethics Act

Finding Summary: Our prior audit of the OVSD's Statements of Financial Interests found two board members failed to file for the year ended December 31, 2006, and one board member failed to file for the year ended December 31, 2005.

Recommendations: Our audit finding recommended that the OVSD:

1. Seek the advice of the State Ethics Commission (SEC) in regard to the board's responsibility when an elected board member fails to file a Statement of Financial Interests.
2. Develop procedures to ensure that all individuals required to file Statement of Financial Interests forms do so in compliance with the Ethics Act.

Current Status: During our current audit procedures we found that the OVSD did not implement the recommendations. For the calendar year 2008, one board member did not file, while in 2009 and 2010 one member filed late. We have forwarded this information to the SEC.

Finding No. 3: Continued Errors in Reporting Pupil Transportation Data

Finding Summary: Our prior audit of OVSD's pupil transportation records found a discrepancy in the end-of-year report submitted to PDE for the 2005-06 school year, resulting in a transportation reimbursement underpayment of \$1,077.

Recommendations: Our audit finding recommended that the OVSD:

1. Require District personnel to implement procedures to perform a thorough review of data before submission to PDE to ensure all transportation data is complete and accurately reported.
 2. Review reports submitted subsequent to the years of audit and revise and resubmit, if necessary.
-

Our audit finding also recommended that PDE:

3. Adjust the District's future allocations to rectify the underpayment of \$1,077.

Current Status: During our current audit procedures we found that the OVSD did implement the recommendations. As of January 31, 2012, the underpayment was pending final adjustment by PDE.

Observation: Memorandum of Understanding Not Updated Timely

Observation

Summary: Our prior audit of the OVSD's records found that the Memorandum of Understanding (MOU) between the District and the local police department was signed September 11, 1998, and had never been updated.

Recommendations: Our audit observation recommended that the OVSD:

1. In consultation with the District's solicitor, review, update and re-execute the current MOU between the District and the local police department.
2. Adopt 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 OVSD did implement the recommendations. An updated Memorandum of Understanding was signed by local law enforcement on September 1, 2011.

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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