

SHENANGO AREA SCHOOL DISTRICT  
LAWRENCE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JULY 2012



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

Mr. Albert Burick, Jr., Board President  
Shenango Area School District  
2501 Old Pittsburgh Road  
New Castle, Pennsylvania 16101

Dear Governor Corbett and Mr. Burick:

We conducted a performance audit of the Shenango Area School District (SASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 13, 2009 through February 28, 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 SASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

We appreciate the SASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

July 26, 2012

cc: **SHENANGO AREA SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Shenango Area School District (SASD). 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 SASD in response to our prior audit recommendations.

Our audit scope covered the period November 13, 2009 through February 28, 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 SASD encompasses approximately 25 square miles. According to 2010 federal census data, it serves a resident population of 8,188. According to District officials, in school year 2009-10 the SASD provided basic educational services to 1,311 pupils through the employment of 96 teachers, 55 full-time and part-time support personnel, and 8 administrators. Lastly, the SASD received more than \$9.2 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the SASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the SASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the SASD had taken appropriate corrective action in implementing our recommendations pertaining to a possible conflict of interest transaction (see page 7).





## Audit Scope, Objectives, and Methodology

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### 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 November 13, 2009 through February 28, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through February 28, 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 (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 SASD'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 state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ 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.

SASD 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 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 SASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 25, 2010, we reviewed the SASD's response to PDE dated November 8, 2010. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the Shenango Area School District resulted in no findings or observations.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Shenango Area School District (SASD) for the school years 2007-08 and 2006-07 resulted in one reported finding. The finding pertained to a possible conflict of interest transaction. 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 SASD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the SASD did implement recommendations related to the possible conflict of interest transaction.

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

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**Finding:**                      **Possible Conflict of Interest Transaction**

Finding Summary:      Our prior audit of the District's 2007-08 school year board of directors' actions found a possible conflict of interest transaction. A board member, through his business, purchased for the District a 2007 van at an automobile auction. The District paid the board member's business for the vehicle. Review of board minutes failed to find that the board of directors pre-approved the purchase of the van. The board member did not publicly announce or disclose the nature of his interest as a matter of public record, nor did he file a written memorandum with the District's board secretary.

Recommendations:      Our audit finding recommended that the SASD:

1. Adhere to provisions of the Public School Code (PSC) regarding doing business with school directors.
2. Require District administrators to follow the PSC bidding requirements and the District's bidding policies when making purchases for the District.
3. Ensure that all contracts over \$100 are approved by formal vote of the board.
4. In conjunction with its solicitor and the State Ethics Commission determination, require the District administrative personnel to put procedures in place to ensure that board members actions are in compliance with the Ethics Act.

We also recommended that the State Ethics Commission:

5. Review and investigate this possible conflict of interest as it deems appropriate.

Current Status:

During the current audit, our review of minutes found no additional violations of the PSC. We also found that the District obtained a waiver from PDE permitting them to directly purchase vehicles at auction that are below bluebook and bid pricing, and from vendors who offer demo equipment below state contract price.

Additionally, on July 12, 2010 the State Ethics Commission wrote the Department of the Auditor General stating that since the District stated in its response to our prior audit finding that the board member made no profit in obtaining the vehicles for the District, and there was therefore no private pecuniary gain, no investigation into the possible conflict was undertaken.

## **Distribution List**

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

The Honorable Tom Corbett  
Governor  
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
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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](http://www.auditorgen.state.pa.us).

