

STEEL VALLEY SCHOOL DISTRICT  
ALLEGHENY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

MARCH 2011



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

Ms. Beth Cannon, Board President  
Steel Valley School District  
220 East Oliver Road  
Munhall, Pennsylvania 15120

Dear Governor Corbett and Ms. Cannon:

We conducted a performance audit of the Steel Valley School District (SVSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 22, 2006 through June 8, 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 SVSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two findings 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 findings, observation and recommendations have been discussed with SVSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SVSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SVSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

March 4, 2011

cc: **STEEL VALLEY 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 Steel Valley School District (SVSD). 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 SVSD in response to our prior audit recommendations.

Our audit scope covered the period August 22, 2006 through June 8, 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 SVSD encompasses approximately 4 square miles. According to a 2005 local census data, it serves a resident population of 18,340. According to District officials, in school year 2007-08 the SVSD provided basic educational services to 1,892 pupils through the employment of 170 teachers, 71 full-time and part-time support personnel, and 15 administrators. Lastly, the SVSD received more than \$11.8 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

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

**Finding No. 1: Costly Buy-outs of Former Superintendent's and Director of Operational Services' Contracts.** The termination of the contracts with the former superintendent and director of operations lead to costly buy-outs (see page 6).

**Finding No. 2: Inadequate Documentation Supporting Pupil Transportation Reimbursement.** Our audit of pupil transportation records and reports for the 2007-08, 2006-07, 2005-06 and 2004-05 school years found weaknesses in the SVSD's system of internal controls (see page 9).

**Observation: Memoranda of Understanding Not Updated Timely.** Our audit of the SVSD's records found that the SVSD had on file properly signed Memoranda of Understanding (MOU) with its local law enforcement agencies; however, the MOUs had not been updated since March 4, 1996, for two of the three boroughs (see page 11).

**Status of Prior Audit Findings and**

**Observations.** With regard to the status of our prior audit recommendations to the SVSD from an audit we conducted of the 2002-03 and 2003-04 school years, we found the SVSD had not taken appropriate corrective action in implementing our recommendations pertaining to lack of internal controls in pupil transportation records (see page 12). The SVSD had taken appropriate corrective action in implementing our recommendations pertaining to bus drivers (see page 13).



## 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 August 22, 2006 through June 8, 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 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 SVSD'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:

- ✓ 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?
- ✓ 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 and conclusions based on our audit objectives.

SVSD 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 pupil transportation and state ethics compliance.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 14, 2008, we performed audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding No. 1

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#### Costly Buy-outs of Former Superintendent's and Director of Operational Services' Contracts

*Criteria relevant to the finding:*

Section 1073 of the Public School Code requires District's to enter into three to five year employment contracts with their superintendent.

On November 8, 2004, the Steel Valley School District board of directors (Board) entered into an employment contract (contract) with an individual (Superintendent) to serve as the District's superintendent. This contract was effective February 6, 2005 through June 30, 2009. According to the contract, the Superintendent was to receive an initial salary of \$103,500, prorated for the period February 6, 2005 through June 30, 2005, or approximately \$51,750. He would then receive a salary of \$108,500 for the period from July 1, 2005 through June 30, 2006, with \$4,000 increases over that base salary for each of the remaining three years.

The Superintendent's Contract included the following provisions with regard to the premature termination of the Superintendent's employment with the District:

9. (B) The Superintendent may be removed from his position should his Letter of Eligibility be rescinded by the State or should he plead guilty to, or be convicted of, a felony. Should the Board wish to remove the Superintendent from his position for any other reason, it shall bear the cost of the remaining contractual terms through the expiration of the contract and the Superintendent shall have the right to demand full compensation for all contractual terms through the end of the contract upon separation, payable on the date of separation.

16(a) This agreement may be changed or terminated by mutual consent of the parties, except for the purpose of official retirement of the Superintendent, provided, however that the party seeking such a change termination shall give no less than sixty (60) days written notice to the other party. The Superintendent may terminate this Agreement upon ninety (90) day's advance written notice to the School District.

On June 29, 2006, after the Superintendent had served for 17 months, the Board approved a Resolution authorizing

and accepting the resignation of the Superintendent. The Board also approved three annual payments of \$25,000, as a retirement benefit, to be paid on or before July 10 of 2006, 2007 and 2008, for a total of \$75,000.

The Superintendent received no other payment for sick, vacation or personal days.

A new Superintendent was hired on July 25, 2006 for a three year term.

In addition to the payments totaling \$75,000 made to the Superintendent, the District paid \$40,000 to the former Director of Operational Services (DOS) for his early resignation from the District.

The Board entered into an employment contract with the DOS on June 27, 2005, for a five year term, through June 30, 2010. The contract provided:

- compensation of \$73,500 per year, and
- a stipend of \$1,000 per month for each month he performed the additional duties of supervisor of buildings and grounds.

The DOS's employment contract stated, "in the event of termination, DOS shall not be entitled to any severance payment whatsoever except as otherwise described herein, also in the event DOS contract is terminated by mutual consent prior to its effective termination date, the School District shall have no further responsibility or liability of any nature whatsoever to DOS."

On September 25, 2007, two years and three months into the five-year contract, the Board accepted an Agreement of Settlement, Release and Confidentiality of the DOS, effective September 19, 2007. The District approved payment of \$40,000 to the DOS, less all legal withholdings. The DOS received no other payment for sick, vacation or personal days. The District could not explain to us how the amount of \$40,000 was determined.

The Agreement of Settlement with the DOS stated that "all benefit and incidents of his employment relationship with the District, other than those continuing obligations set

forth in this Agreement, will cease as of the effective date of this Agreement.”

The Agreement of Settlement with the DOS further stated:

The terms, conditions and amount of this agreement, and the reasons therefore, shall at all times remain strictly confidential. . . . The parties agree that disclosure of the terms and conditions of this Agreement in violation of this Paragraph constitutes a material breach of the Agreement.

If the District had followed termination provisions in the employment contract with the DOS the District would not have incurred the additional costs of \$40,000.

### **Recommendations**

The *Steel Valley School District* should:

1. Enter into employment contracts with prospective Superintendents at the three year minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers.
2. Ensure that all future employment contracts contain adequate termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason.
3. Follow the termination provisions contained in all future employment contracts when employment ends prematurely, so that the District does not pay more than required by the contracts.
4. Provide as much information as possible to the taxpayers of the District explaining the reasons for the resignations of the Superintendent and Director of Operational Services and justifying the District’s expenditure of a significant amount of public funds to buy-out the contracts.

### **Management Response**

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

**Finding No. 2**

**Inadequate Documentation Supporting Pupil Transportation Reimbursement**

*Criteria relevant to the finding:*

Chapter 23 of the State Board of Education Regulations, Section 23.4, states, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

Our audit of pupil transportation records and reports for the 2007-08, 2006-07, 2005-06 and 2004-05 school years found weaknesses in the District's system of internal controls. As a result, we were unable to verify the District's entitlement to reimbursements of \$146,448, \$124,589, \$143,626, and \$149,561 for the respective school years.

Lack of documentation supporting transportation reimbursement was also the subject of a finding in our prior audit report (see page 12).

The weaknesses were as follows:

- The bus drivers' mileage worksheets failed to accurately identify mileages that buses traveled with and without pupils;
- We were unable to confirm odometer readings from start to finish of a run, that all routes were reported, or that the mileage reported was accurate; and
- We could not verify the greatest number of pupils transported by each vehicle because pupil rosters were not accurate and verified by District personnel.

As a result of the District's failure to prepare and retain accurate support documentation, we were unable to confirm that the District received the correct reimbursement for pupil transportation.

**Recommendations**

The *Steel Valley School District* should:

1. Prepare and maintain daily records of pupil counts and mileage data, as required by the Department of Education (DE) instructions and Chapter 23 regulations.
2. Prepare detailed route descriptions and perform a yearly verification of all bus routes and mileages to ensure contracted buses follow board approved routes.

3. Conduct an internal review to ensure accuracy of daily mileage and pupil counts reported to DE.
4. Maintain on file the source data used to calculate and report transportation data to DE.

**Management Response**

Management stated the following:

Problem occurred in past years but has been corrected going forward.



**Observation** →

*Criteria relevant to this observation:*

Section 13-1303A-(c) of the Public School Code provides, in part:

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 issued by the Department of Education entitled Safe Schools and Possession of Weapons contains a sample MOU to be used for 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 two of its three local law enforcement agencies have not been updated since March 4, 1996.

The failure to update the MOUs with all 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 a school or school-sponsored activity. This internal control weakness could have an impact in law enforcement notification and response, and ultimately the resolution of a problem situation.

**Recommendations**

The *Steel Valley School District* should:

1. In consultation with the District’s solicitor, review, update and re-execute the current MOU between the District and the local law enforcement agencies.
2. Adopt a policy requiring the administration to review and execute all MOUs every two years.

**Management Response**

Management stated the following:

Memorandum of Understanding have been sent to the boroughs for completion. They have not yet responded.

## Status of Prior Audit Findings and Observations

Our prior audit of the Steel Valley School District (SVSD) for the school years 2003-04 and 2002-03 resulted in one reported finding and one observation. The finding pertained to lack of documentation for pupil transportation, and the observation pertained to lack of administrative policy for bus drivers. 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 SVSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the SVSD did not implement recommendations related to the finding. The District did implement recommendations related to bus drivers' qualifications.

<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>I. Finding: Documentation Supporting Reimbursement of \$292,002 for Pupil Transportation was Inadequate</i></u></p> <ol style="list-style-type: none"> <li>1. Prepare and maintain daily records of pupil counts and mileage data.</li> <li>2. Prepare detailed route descriptions and perform a yearly verification of all bus routes and mileage to ensure contract buses follow board-approved routes.</li> <li>3. Conduct an internal review to ensure accuracy of daily mileage and pupil counts reported to DE.</li> <li>4. Maintain on file the source data used to calculate and report transportation data to DE.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of pupil transportation records and reports submitted to DE for the 2003-04 and 2002-03 school years found a lack of documentation supporting transportation reimbursements of \$152,634 and \$139,368 for the respective school years.</p>	<p><b>Current Status:</b></p> <p>Our audit of the transportation records for the current audit again found a lack of documentation for all audit years (see Finding No. 2 in the current audit report on page 9).</p> <p>Based on the results of our current audit, we concluded the District did not take appropriate corrective action to address this finding.</p>

<p><u>II. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</u></p> <ol style="list-style-type: none"> <li>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 have direct contact with children.</li> <li>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 and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that neither the District nor the District's transportation contractor had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the transportation coordinator reviews the bus drivers' qualifications at the beginning of the each school year.</p> <p>A policy was implemented that requires drivers to notify the District if a driver is charged with a crime.</p> <p>Based on the results of our current audit we determined the District has taken appropriate corrective action.</p>
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## **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  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
Acting 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. Barbara Nelson  
Director, Bureau of Budget and  
Fiscal Management  
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

Dr. David Davare  
Director of Research Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055

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