



**WEST JEFFERSON HILLS
SCHOOL DISTRICT**

ALLEGHENY COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

JULY 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Anthony Angotti, Board President
West Jefferson Hills School District
835 Old Clairton Road
Jefferson Hills, Pennsylvania 15025

Dear Governor Corbett and Mr. Angotti:

We conducted a performance audit of the West Jefferson Hills School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 5, 2010 through March 30, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies 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 District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of this audit report.

Our audit observation and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

July 10, 2013

cc: **WEST JEFFERSON HILLS SCHOOL DISTRICT** Board of School Director

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the West Jefferson Hills School District (District). 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 District in response to our prior audit recommendations.

Our audit scope covered the period March 5, 2010 through March 30, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 20 square miles. According to 2010 local census data, it serves a resident population of 19,405. According to District officials, the District provided basic educational services to 2,898 pupils through the employment of 182 teachers, 96 full-time and part-time support personnel, and 16 administrators during the 2009-10 school year. Lastly, the District received \$10.3 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Amount Paid Pupil Transportation Contractor Greatly Exceeds Pennsylvania Department of Education Allowance. Our audit found that the contracted cost of the District's pupil transportation was substantially more than the Pennsylvania Department of Education's allowance (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations from an audit released on October 1, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to Memorandum of Understanding (see page 8).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 5, 2010 through March 30, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2010 through June 30, 2011.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

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 District'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 received transportation subsidies, were the District and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Were there any declining fund balances that may pose a risk to the fiscal viability of the District?

- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and did 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?
- ✓ Did the District take 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 audit?

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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's 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. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, and financial stability, reimbursement applications, policies and procedures, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 1, 2010, we reviewed the District's response to PDE dated March 4, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Amount Paid Pupil Transportation Contractors Greatly Exceeds Pennsylvania Department of Education Allowance

Criteria relevant to the observation:

Chapter 23 of the State Board of Education Regulations states that the District's Board of School Directors is responsible for the negotiation and execution of contracts or agreements with contractors, and approval of the drivers of the vehicles providing transportation.

Our audit of the West Jefferson Hills School District's (District) contracted pupil transportation costs for the school years ending June 30, 2009 through June 30, 2010, found that over the two-year period, the contracted cost of the District's pupil transportation operations was substantially more than the Pennsylvania Department of Education's (PDE) final formula allowance, which is used to determine reimbursement of pupil transportation services.

PDE's final formula allowance provides for a per vehicle allowance based on the vehicle chassis' year of manufacture, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. The reimbursement received is the lesser of the final formula allowance for the vehicles, or the actual amount paid to the contractor, multiplied by the District's aid ratio.

The following chart details the fluctuation in the District's contracted costs compared to PDE's final formula allowance:

<u>School Year</u>	<u>Contractor Costs</u>	<u>Final Formula Allowance</u>	<u>Contractor Costs Exceeding</u>	
			<u>Final Formula Allowance</u>	<u>Percentage Difference</u>
2009-10	\$2,127,802	\$1,117,228	\$1,010,574	90.45 %
2008-09	1,731,999	1,114,719	617,280	55.38

The following chart details the total amount paid to the contractor each school year, the maximum allowable cost, the total reimbursement received by the District from PDE, and the local tax dollars required to operate the District's pupil transportation program.

<u>School Year</u>	<u>Contractor Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2009-10	\$2,127,802	\$1,117,228	\$ 722,716	\$1,405,086
<u>2008-09</u>	<u>1,731,999</u>	<u>1,114,719</u>	<u>709,482</u>	<u>1,022,517</u>
Total	<u>\$3,859,801</u>	<u>\$2,231,947</u>	<u>\$1,432,198</u>	<u>\$2,427,603</u>

A query of PDE's pupil transportation data noted that 486 Pennsylvania school districts, intermediate units and area vocational-technical schools for the 2009-10 school year contracted their pupil transportation service. Approximately 27 percent of these local education agencies (LEA) paid their contractors the final formula or less. An additional 23 percent paid less than ten percent more than their final formula allowance. By comparison, the District paid its contractor 90.45 percent more than the state formula for the 2009-10 school year, and 55.38 percent more for the 2008-09 school year.

District personnel provided us with the new pupil transportation contract effective March 28, 2006 through June 30, 2016. The contract provides for a three percent increase each year of the contract. The contract did not indicate that there would be any consideration of PDE's approved final formula allowance. District administrative personnel stated the District's board of directors did not seek competitive bids for the pupil transportation services for the contract period. At the time, the District chose to instead to negotiate with the same local contractor that had been providing service for several prior school years.

Recommendations

The *West Jefferson Hills School District* should:

1. Ensure that, prior to negotiating a new contract, the board and administrative personnel are cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all of the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.

3. Prepare pupil transportation contracts to ensure the local share is as minimal as possible by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Management Response

Management stated the following:

“The West Jefferson Hills School District understands the observation but disagrees with it.

The West Jefferson Hills School District bus contract has reasonable, steady rate increases over the span of the contract.

- Contract increases range from 2.36% to 3%, with an average of 2.41% over the ten year contract.
- Fuel surcharges are based on the current costs of diesel.

The State's method of calculating the Final Formula Allowance is not an adequate allowance for the District cost.

- The calculation does not take into account the current economy because the increases are based on CPI changes that are a year old. The cost index of 2008 is used to calculate the 2009-2010 allowance.
- The CPI that is used for the calculation is not a fair representation of the economy during the full year. The December CPI is used instead of an average for the year. In 2008, the average CPI increase was 3.85%, but 0.1% was used for the calculation.”

Auditor Conclusion

Although we appreciate the District's position on the matter, the intent of our audits is not to test the adequacy of PDE's policies, it is to test the LEA's compliance with them.

Our recommendation will stand as written.

Status of Prior Audit Findings and Observations

Our prior audit of the West Jefferson Hills School District (District) released on October 1, 2010, resulted in one reported finding. The finding pertained to a Memorandum of Understanding that was not updated timely. 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 District's written response provided to the Pennsylvania Department of Education, performed audit procedures, and interviewed District personnel regarding the prior finding. As shown below, we found that the District did implement the recommendations related to the Memorandum of Understanding that was not updated timely.

Auditor General Performance Audit Report Released on October 1, 2010

Finding:	Memorandum of Understanding Not Updated Timely
<u>Finding Summary:</u>	Our prior audit of the District found that the Memorandum of Understanding (MOU) between the District and its local law enforcement agency had not been updated since November 19, 2007. The District's existing MOU required that the MOU be re-executed within two years.
<u>Recommendations:</u>	Our audit finding recommended that the District: <ol style="list-style-type: none">1. Review, update, and re-execute the MOU between the District and the local law enforcement agency.2. Adopt a written policy requiring the administration to review and execute the MOU every two years.
<u>Current Status:</u>	During our current audit, we found that the District did implement the recommendations. A new MOU was executed on April 19, 2010.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
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The Honorable William E. Harner
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.

