



**LAUREL HIGHLANDS SCHOOL DISTRICT
FAYETTE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

SEPTEMBER 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. James Tobal, Board President
Laurel Highlands School District
304 Bailey Avenue
Uniontown, Pennsylvania 15401

Dear Governor Corbett and Mr. Tobal:

We conducted a performance audit of the Laurel Highlands School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period January 24, 2011 through May 8, 2013, 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 Section 403 of The Fiscal Code, 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 relevant requirements, except as detailed in two findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings 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,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

September 25, 2013

cc: **LAUREL HIGHLANDS SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Laurel Highlands School District (District). Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, 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 January 24, 2011 through May 8, 2013, 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 the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 55 square miles. According to 2010 federal census data, it serves a resident population of 23,409. According to District officials, the District provided basic educational services to 3,376 pupils through the employment of 252 teachers, 139 full-time and part-time support personnel, and 18 administrators during the 2009-10 school year. Lastly, the District received \$19.9 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance related matters reported as findings.

Finding No. 1: Continued Board of School Directors Meeting Minutes Deficiencies

Our review of the Laurel Highlands School District's Board of School Directors (Board) meeting minutes from October 2010 through April 2012 found deficiencies in the maintenance of the Board meeting minutes and in the recording of information in the minutes (see page 6).

Finding No. 2: Lack of Documentation Necessary to Verify Bus Drivers' Qualifications

Our audit of the Laurel Highlands School District's (District) current bus drivers' qualifications for the 2011-12 school year found a lack of documentation needed to verify that all of the District's drivers possessed the minimum required qualifications for employment (see page 8).

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to the Laurel Highlands School District (District) from an audit we released on October 11, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the reporting of nonresident membership (see page 11), a certification deficiency (see page 12), and unmonitored vendor system access and logical access

control weaknesses (see page 13). However, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to board meeting minutes deficiencies (see page 12).

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 Section 403 of The Fiscal Code, 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 January 24, 2011 through May 8, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2011 through June 30, 2012.

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 certain relevant 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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a 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 did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant

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 certain relevant laws, regulations, contracts, grant requirements, and administrative procedures.

requirements). 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 relevant requirements 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 membership, bus driver qualifications, professional employee certification, and financial stability.
- 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 11, 2011, we reviewed the District's response to PDE dated April 23, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Continued Board of School Directors Meeting Minutes Deficiencies

Criteria relevant to the finding:

24 P.S. § 4-433 of the Public School Code (PSC) provides, in part:

“The secretary of the board of school directors shall perform the following duties:

- 1) He shall keep a correct and proper record of all the proceedings of the board, and shall prepare such reports and keep such accounts as are required by the provisions of this act. . . .”

24 P.S. §4-408 of the PSC provides, in part:

“The accounts and records of proceedings of the board of every school district... shall be open to the inspection of any taxpayer thereof. . . .”

24 P.S. § 5-518 of the PSC provides, in part:

“Every board of directors shall retain as a permanent record of the district, the minute book. . . .”

The Pennsylvania Sunshine Act, 65 Pa. C.S. § 701 *et seq.*, requires written minutes to be kept of all open meetings.

The Pennsylvania School Boards Association’s *The School Board Secretary’s Handbook*, states:

“The minutes of a meeting – regular or special – must be preserved and safeguarded as the district’s official record of business transacted.”

Our review of the Laurel Highlands School District’s (District) Board of School Directors (Board) meeting minutes from October 2010 through April 2012 found deficiencies in the maintenance of the Board meeting minutes and in the recording of information in the minutes.

This finding is a repeat of the deficiencies in the board meeting minutes we found during our prior audit (see page 12).

At the beginning of our audit, we found the Board meeting minutes for the 2010-11 school year, and for the period from July 2011 to April 2012, did not contain supporting information regarding expenditures, teacher hiring’s, financial records, reports, bids, etc., were not in bound form, and were not available for review. In addition, the District did not store the meeting minutes in a secure location, instead the documents were stored in a cabinet drawer. After we brought these issues to the attention of District personnel, they did bind the complete meeting minutes, including the appropriate supporting information, placed them in a secure area, and they were made available for our review.

The Board meeting minutes constitute the official record of the action taken at district board meetings and, therefore, must provide evidence of the Board’s decisions. This record must also be kept as a permanent record available to the public upon request.

Recommendations

The *Laurel Highlands School District* should:

1. Ensure that its Board meeting minutes contain all supporting information, are permanently bound, and are kept in a secure location.
2. Meet with its solicitor to obtain clarification on the Public School Code's (PSC) requirements for maintaining board meeting minutes.

Management Response

Management stated the following:

“Per past audit the [District] is maintaining all [Board] minutes per regulation. Regulation language unclear.”

Auditor Conclusion

We understand the PSC to be quite clear on this issue. However, the District should ask its solicitor to clarify any of the PSC's requirements on board meeting minutes that it finds unclear. The finding will remain as written.

Finding No. 2

Lack of Documentation Necessary to Verify Bus Drivers' Qualifications

Criteria relevant to the finding:

The Pennsylvania Department of Transportation's regulations require bus drivers to possess a valid driver's license, obtain certification of safety training, and pass a physical examination.

Section 111 of the Public School Code (24 P.S. § 1-111) 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, as well as a federal criminal history record. Section 111 lists convictions for certain criminal offenses that would prohibit individuals from being hired and provides that convictions for other felonies and misdemeanors would disqualify individuals for employment if they occurred within ten or five years, respectively.

Amendments to Section 111 required all current school employees to submit an "Arrest/Conviction Report and Certification" form (PDE-6004) to local education agencies indicating whether or not they have ever been arrested or convicted of any Section 111 offense by December 27, 2011. Furthermore, all employees subsequently arrested or convicted of a Section 111 offense must complete the form within 72 hours of the arrest or conviction.

Our audit of the Laurel Highlands School District's (District) bus driver qualifications for the 2011-12 school year found a lack of documentation needed to verify that all of the District's bus drivers possessed the minimum required qualifications for employment.

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

We reviewed the personnel records of all 54 drivers employed by the District's pupil transportation contractors. Our review found that the District did not have, at the time of our audit, complete employment qualifications for the entire school year for each of the drivers. The incomplete documentation included: "S" endorsement cards (certification of safety training) for 22 drivers, physical exam forms for 11 drivers, and valid driver licenses for 13 drivers. A valid driver license was missing altogether for 3 drivers. The child abuse clearance was missing for ten drivers, and the federal criminal history record was missing for ten drivers. A Pennsylvania State Police criminal history record and a child abuse clearance were obtained after the hire date for one driver. The required "Arrest/Conviction Report and Certification" forms (PDE-6004) for 19 drivers were obtained late, and one was missing. In total, our review found deficiencies in the documentation for 48 of the 54 drivers.

On September 13, 2012, we informed District management of the missing bus driver documentation and instructed them to obtain the necessary documents to ensure that their bus drivers are qualified.

The District stated that they relied on the contractor to approve the bus drivers and obtain the necessary support documentation. There were no procedures in place regarding the approval of the bus drivers by the District administration or by the Board of School Directors.

Criteria relevant to the finding (continued):

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 Pa.C.S. § 6355, requires prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the individual responsible for injury or abuse in a founded report for school employee.

Additionally, Chapter 23 of the State Board of Education Regulations indicates the Board of School Directors is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

It is the responsibility of District management to have appropriate internal policies and procedures in place to ensure that bus drivers have all required documentation. By not having the required bus drivers' qualification documents on file at the District, the District was not able to review these documents prior to determining whether the drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

We made a final review of the documentation obtained by the District at our request and found that by the conclusion of our audit, the District still had only obtained partial school year coverage (meaning the documents were not valid for the entire school year) for: "S" endorsement cards for four drivers, physical exam forms for one driver, and valid driver's licenses for five drivers. A valid driver license was still missing for one driver, the child abuse clearances were still missing for ten drivers, and the federal criminal history records were still missing for five drivers.

Recommendations

The *Laurel Highlands School District* should:

1. Ensure that all required documentation for prospective and current employees, including employees of independent contractors who will have contact with children, is obtained in a timely manner.
2. Ensure that the District maintains files, separate from the transportation contractors, for all District bus drivers, and work with the contractor to ensure that the District's files are up-to-date and complete.
3. Ensure that all bus drivers are approved by the District's Board of School Directors prior to commencement of their duties.

Management Response

Management stated the following:

"District is waiting to review final State reports."

Auditor Conclusion

Although the District contracts out its transportation services, it is still the District's responsibility to ensure that the bus drivers transporting its students are properly qualified. The finding will stand as written.

Status of Prior Audit Findings and Observations

Our prior audit of the Laurel Highlands School District (District) released on October 11, 2011, resulted in three 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 audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE) and interviewed District personnel regarding the prior findings and observation. As shown below, we found that the District did implement our recommendations pertaining to reporting nonresident membership, a certification deficiency, and unmonitored vendor system access and logical access control weaknesses. However, we found the District had not taken appropriate corrective action in implementing our recommendations pertaining to the Board of School Directors (Board) meeting minutes deficiencies.

Auditor General Performance Audit Report Released on October 11, 2011

Finding No. 1: Error in Reporting Nonresident Membership Resulted in an Underpayment of \$8,641 in Tuition for Children Placed in Private Homes

Finding Summary: Our prior audit of pupil membership reports submitted to PDE for the 2007-08 school year found that nonresident membership for children placed in private homes (foster children) was understated by 230 kindergarten days. The error resulted in an underpayment of \$8,641 in tuition for children placed in private homes.

Recommendations: Our audit finding recommended that the District should:

1. Require District personnel to review membership data thoroughly to ensure students are properly classified prior to submitting reports to PDE.
2. Review reports submitted subsequent to the years audited and submit revised reports to PDE if errors were found.

We also recommended that PDE should:

3. Adjust the District's allocations to resolve the \$8,641 underpayment of tuition for children placed in private homes.

Current Status: During our current audit, we found that the District did implement our recommendations.

As of May 8, 2012, PDE had not yet adjusted the District's allocations to resolve the \$8,641 underpayment of tuition for children placed in private homes.

Finding No. 2: Certification Deficiency

Finding Summary: Our prior audit of professional employees' certification and assignments found that one teacher was assigned outside her area of certification.

Recommendations: Our audit finding recommended that the District should:

Assign positions to professional personnel who hold appropriate certification for the assignment.

We also recommended that PDE should:

Recover the appropriate subsidy forfeitures.

Current Status: During our current audit, we found that the District did implement our recommendations pertaining to the assignment of the teacher.

PDE withheld a subsidy forfeiture of \$2,951 from the District's basic education subsidy funding payment on December 29, 2011.

Finding No. 3: Board Meeting Minutes Deficiencies

Finding Summary: Our prior audit of the Board meeting minutes found deficiencies in the maintenance of the minutes.

Recommendations: Our audit finding recommended that the District should:

1. Assure that the Board meeting minutes are complete, permanently bound, and kept in a secure place.
 2. Require the Board secretary to keep a correct and proper record of the minutes.
 3. Ratify minutes for approval only upon assuring that the Board members have received copies of the minutes they are voting on.
-

Current Status: During our current audit, we found that the District did not implement the recommendations related to assuring that the minutes are complete, permanently bound, and kept in a secure place (see Finding No. 1).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Based on our prior audit of software purchased from the Central Susquehanna Intermediate Unit 16 (Intermediate Unit) for student accounting, we determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the District should:

1. Mitigate information technology (IT) control weaknesses by implementing compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
3. Develop policies and procedures to require written authorization when deleting or changing a userID.
4. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the Intermediate Unit sign this policy, or require the Intermediate Unit to sign the District's Acceptable Use Policy.
5. Implement a security policy and system parameter settings to require all users, including the Intermediate Unit, to use passwords that are a minimum length of eight characters.

Current Status: During our current audit, we found that the District did implement our recommendations.

Distribution List

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

The Honorable Tom Corbett
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The Honorable Carolyn Dumaesq
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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.