

PERFORMANCE AUDIT

Iroquois School District Erie County, Pennsylvania

June 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. James F. Crotty, Board President
Iroquois School District
800 Tyndall Avenue
Erie, Pennsylvania 16511

Dear Governor Wolf and Mr. Crotty:

We conducted a performance audit of the Iroquois 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 July 9, 2012 through November 7, 2014, except as otherwise stated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. 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.

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

June 11, 2015

cc: **IROQUOIS 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 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 July 9, 2012 through November 7, 2014, except as otherwise stated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately two square miles. According to 2010 federal census data, it serves a resident population of 7,323. According to District officials, the District provided basic educational services to 1,244 pupils through the employment of 96 teachers, 56 full-time and part-time support personnel, and eight administrators during the 2011-12 school year. The District received \$11.1 million in state funding in the 2011-12 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. Our audit resulted in no findings or observations.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the District from an audit released on June 24, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to internal control procedures related to non-resident membership (see page 7), bus driver qualification documentation (see page 8), and transportation reporting internal control weaknesses (see page 9).

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 July 9, 2012 through November 7, 2014.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 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:

- Ü In areas where the District received state subsidies and reimbursements based on non-resident pupil membership, did it follow applicable laws [24 P.S. § 13-1301, 13-1302, 13-1305, and 13-1306] and procedures [22 PA Code Chapter 11]?
 - To address this objective, the auditors reviewed placement information on both of the District's non-resident students.

Ü In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable laws [24 P.S. § 25-2541] and procedures?

- To address this objective, the auditors reviewed a random selection of 3 of the 12 total District buses. For each bus in the sample, the auditors reviewed various data, including board approval of routes, manufacturer, serial number, year of manufacture, and seating capacity as required under 24 P.S. § 25-2541.

Ü Did the District ensure that bus drivers transporting District children at the time of the audit have the necessary license, physicals, training, background checks, and clearances as outlined in 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 PA Code Chapter 8, and 23 PA C.S. § 58-6354, and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- The auditors initially selected the three newest drivers out of the three “new drivers” hired during the current school year and the three drivers that were missing appropriate documentation the last time the Bureau of School Audits audited the District and reviewed bus driver compliance.
- The auditors also requested copies of the written policies and procedures governing the hiring of bus drivers to determine that these processes included requesting background checks and clearances.

Ü Were votes made by the District’s Board of School Directors (Board) free from apparent conflicts of interest?

- To address this objective, the auditors reviewed all 13 of the sitting and recent board members’ employment history,

Statements of Financial Interest, board meeting minutes, and any known outside relationships with the District.

Ü Did the District take appropriate steps to ensure school safety?

- To address this objective, the auditors reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, and after action reports to assess whether the District followed best practices in school safety and 24 P.S. Sect. 13-1302, 1302.1A, 13-1303.1, and 13-1303 A. Generally, the auditors evaluate the age of the plan, whether it is being practiced through training and whether the school has an after action process for trying to improve on the results of its training exercises.

Ü Did the District take appropriate corrective action to address recommendations made in our prior audit?

To address this objective:

- The auditors interviewed District administrators to determine whether they had taken corrective action.
- The auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or observed these changes in person.
- The auditors conducted testing related to the three prior audit findings as part of the following objectives: non-resident membership, bus driver qualifications, and transportation services.

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 certain relevant state 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 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 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 controls 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, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, state ethics compliance, financial stability, reimbursement applications, 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.

To determine the status of our audit recommendations made in a prior audit report released on June 24, 2013, we reviewed the District's response to PDE dated July 25, 2014. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on June 24, 2013, resulted in three findings. 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 PDE, performed audit procedures, and interviewed District personnel regarding the prior findings. As described below, we found that the District did implement our recommendations related to internal control procedures pertaining to non-resident membership, bus driver qualification documentation, and transportation reporting internal control weaknesses.

Auditor General Performance Audit Report Released on June 24, 2013

Finding No. 1: Lack of Internal Controls Found in Pupil Membership

Finding Summary: Our prior audit of the District found that membership reporting internal controls were inadequate, especially regarding the reporting of non-resident foster students.

Recommendations: Our audit finding recommended that the District should:

1. Continue to follow up with the placement agencies to obtain all required documentation to support residency classification of the District's students.
2. Submit the necessary corrections to PDE for the proper identification of the District's non-resident foster children for the 2009-10 school year.
3. Develop written procedures to ensure that personnel responsible for pupil registration understand all requirements necessary for proper student registration.
4. Do not enter students into the child accounting system until their residency status has been properly verified.
5. Require child accounting personnel to review the Pennsylvania Information Management System instruction manual for the proper coding of non-resident students.
6. Ensure that registration personnel immediately forward all non-resident supporting documentation to the child accounting specialists.

7. Require the child accounting specialist to review subsequent years' data to ensure the proper reporting of foster and other non-resident students.
8. Develop an internal control process to ensure that the child accounting specialist effectively reviews PDE's preliminary child accounting reports.

We also recommended that PDE should:

9. Assist the District in correcting its non-resident foster child reporting errors for the 2009-10 school year.

Current Status:

On October 1, 2012, the District submitted corrections for the proper identification of non-resident foster children for the 2009-10 school year. The District followed up with placement agencies to obtain all proper documentation.

On June 9, 2014, the Child Accounting Coordinator sent the District's schools written procedures to ensure personnel, responsible for pupil registration and residency requirements, complete all required documentation.

Our current testing determined that the District complied with our prior recommendations in all significant respects.

Finding No. 2:

Failure to Have All School Bus Drivers' Qualifications on File

Finding Summary:

Our prior audit of the District found that several of the contracted bus driver's qualification documents were not on file at the District at the time of our audit.

Recommendations:

Our audit finding recommended that the District should:

1. Require the contractor to obtain new clearances for the driver cited in our finding whose clearances were more than a year old, based on the date he or she began working for the District.
2. Review its current bus driver listing and work with its contractor to obtain all required clearances based on when the District's Board approved the driver, not when the contractor hired the driver.

3. Review its transportation policy, in conjunction with its solicitor, to determine whether changes are required relating to bus driver clearances, responsibility for review, and age of clearances submitted to the District.

Current Status:

During our current audit, we found that the District obtained new clearances for the driver cited whose clearances were more than a year old. The District now works with the contractor to obtain all required clearances based on when the Board approves the bus drivers, not when the drivers are hired by the contractor.

Finding No. 3:

Continuing Internal Control Weaknesses Noted in the Reporting of Transportation Data

Finding Summary:

Our prior audit of the District found that internal controls were weak in the process of reporting transportation data to PDE in several areas, including mileage, pupil counts, the year of manufacture of vehicles, and contractor fuel usage.

Recommendations:

Our audit finding recommended that the District should:

1. Require contractors to provide complete fleet information for board approval, including daily mileages and copies of vehicle registration cards.
2. Develop internal control procedures to ensure that District personnel independently verify contractor mileage and pupil counts.
3. Develop internal control procedures to require District personnel to review contractor-provided monthly route verification reports, including mileage and pupil counts, prior to the submission of this data to PDE.
4. Develop a fuel allocation system by which only fuel costs associated with to-and-from school transportation is reported for PDE reimbursement.
5. Develop a system of internal controls to ensure that all District-prepared transportation reports are reviewed by a second person to ensure that they are accurate prior to submission to PDE.

Current Status:

During our current audit, we found that the District implemented internal control procedures that documented verification of contractor mileage and pupil counts. In addition, the District developed a system

by which only fuel costs associated with to-and-from school transportation is reported for reimbursement.

Our current testing determined that the District complied with our prior recommendations in all significant respects.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf
Governor
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Harrisburg, PA 17120

The Honorable Pedro A. Rivera
Acting Secretary of Education
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