

CANON-MCMILLAN SCHOOL DISTRICT  
WASHINGTON COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

AUGUST 2009



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Jay Romano, Board President  
Canon-McMillan School District  
1 North Jefferson Avenue  
Canonsburg, Pennsylvania 15317

Dear Governor Rendell and Mr. Romano:

We conducted a performance audit of the Canon-McMillan (CMSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 9, 2007 through December 23, 2008, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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 CMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

August 6, 2009

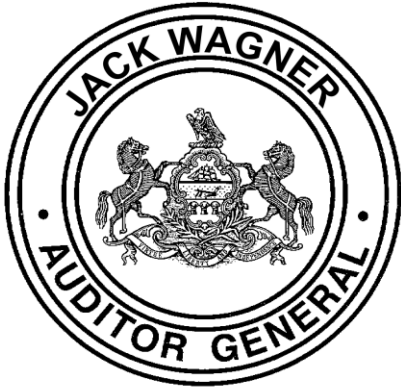
cc: **CANON-MCMILLAN SCHOOL DISTRICT** Board Members

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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 Canon-McMillan School District (CMSD). 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 CMSD in response to our prior audit recommendations.

Our audit scope covered the period March 9, 2007 through December 23, 2008, 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 2005-06 and 2004-05, as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

### **District Background**

The CMSD encompasses approximately 54 square miles. According to 2000 federal census data, it serves a resident population of 28,420. According to District officials, in school year 2005-06 the CMSD provided basic educational services to 4,511 pupils through the employment of 316 teachers, 229 full-time and part-time support personnel, and 19 administrators. Lastly, the CMSD received more than \$15.3 in state funding in school year 2005-06.

### **Audit Conclusion and Results**

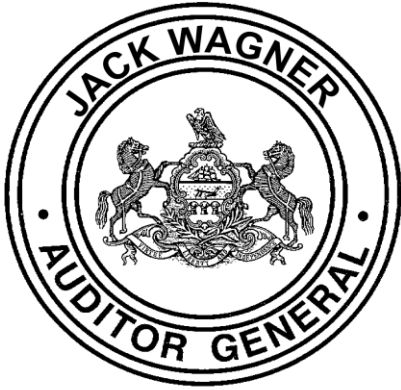
Our audit found that the CMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

#### **Finding: District Reports Deficit Fund Balances for Fiscal Years Ended**

**June 30, 2006, 2007 and 2008.** Our review of the CMSD's financial reports found a general fund deficit of \$1,176,003 as of June 30, 2008 (see page 6).

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

**Observations.** With regard to the status of our prior audit recommendations to the CMSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the CMSD had taken appropriate corrective action in implementing our recommendations pertaining to Statements of Financial Interests (see page 10).



## 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 March 9, 2007 through December 23, 2008, except for the verification of professional employee certification which was performed for the period December 1, 2006 through November 30, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 DE 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

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 CMSD'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:

- ✓ Were professional employees certified for the positions they held?

*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.

- ✓ In areas where the District receives state subsidy reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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 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.

CMSD 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, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 5, 2007, we reviewed the CMSD's response to DE dated June 16, 2008. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

### Finding

### District Reports Deficit Fund Balances for Fiscal Years Ended June 30, 2006, 2007 and 2008

*Criteria relevant to this finding:*

Section 609 of the Public School Code provides, in part:

No work shall be hired to be done, no materials purchased, and no contracts made by any board of the school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

Our review of the District's annual financial reports, local auditor's reports, and general fund budgets for the fiscal years ended June 30, 2008, 2007, 2006 and 2005 found that the District reported general fund deficits for the last three years, as shown in the following schedule:

<u>Fiscal Year Ending June 30</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Expenditures (Over)/Under</u>	<u>General Fund Surplus (Deficit)</u>
2004	\$ -	\$ -	\$ -	\$ 617,315
2005	45,494,602	45,419,880	74,722	692,037
2006	48,102,371	49,423,864	(1,321,493)	(629,456)
2007	51,391,362	52,096,936	(705,574)	(1,335,030)
2008	53,376,019	53,216,992	159,027	(1,176,003)

The most significant factor causing the general fund deficits was the failure to control expenditures in accordance with the general fund budgets. The following schedule details total actual expenditures in excess of budgeted expenditures:

<u>Fiscal Year Ending June 30</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Over Expenditures</u>
2005	\$43,753,354	\$45,419,880	\$(1,666,526)
2006	46,108,221	49,423,864	(3,315,643)
2007	49,964,881	52,096,936	(2,132,055)
2008	53,115,268	53,216,992	(101,724)

The highest variances were expenditures for plant services, regular and special education, instructional costs and student transportation.

The expenditures over budget were only partially offset by revenues also in excess of budget for each year.

## **Recommendations**

The *Canon McMillan School District* should:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for the current operations and limit them to revenues received and the amount appropriated.
3. Provide for a systematic reduction of the general fund deficit.

## **Management Response**

Management stated the following. The superintendent provided the following response:

I became Superintendent of the Canon-McMillan School District on July 1, 2008. I am painfully aware of the indications of a negative fund balance.

I concur with the new Director of Business and Finance that a plan needs to be in place to remedy our situation. An account designated solely to recover the fund balance to a fiscally healthy level is recommended by her office and has the complete endorsement of my office.

I am also aware of the power of the majority of the voting members of the Board of School Directors. Moving forward, my Cabinet and I will continue to pursue the cooperation and comprehension of our Board of School Directors to take necessary action to regain fiscal stability and health for our district. We are forthright in our approach and will document our efforts. We will work fervently to impart this need. The real influence and hope for improvement lies with the nine voting members of the Board. I anticipate success in this matter, and will do whatever I can to make this remedy a reality.

The Director of Business and Finance provided the following response:

I would like to formally comment on both the causes of the finding, as well as what corrective action measures have been put into place to correct the issue going forward. I will also detail a proposed plan to remedy the current deficit situation.

I became the Director of Business and Finance for the Canon-McMillan School District on July 5, 2007. All of the above budgets [addressed in the finding] were put into place prior to my employment with the district. As I was apprised of the financial situation of the district, I came to realize that deficit spending had been taking place in the recent past and was a main contributing factor to the negative fund balance. A violation of PA Code 609, I immediately requested that deficit spending cease. Additionally, I required that any non-budgeted item that would utilize the budgetary reserve of the district be approved on a case by case basis by the Board of Education. This was in an attempt to work within the existing inherited budget, while safeguarding existing funds to ensure we did not go over budget. As a result, the 2007-08 school year for the Canon-McMillan School District ended with a modest fund balance that assisted in reducing the accumulated negative balance for the first time in a series of years.

Upon creation of the 2008-09 Budget, each department head participated in the budget process. They were then advised of their final budgets and given the directive that deficit spending is not permitted and it is imperative to ensure that funds are transferred to cover all purchases or the purchases will be denied. It was also noted that any item that was not budgeted for must be Board approved prior to utilizing those funds in an attempt to safe guard the reserve to ultimately assist in restoring the fund balance to a positive amount of funds. Communication of the District's financial position was done with all Administrators and Board Members after our 2007-08 internal audit. My focus is clearly on restoring the financial health of our district. I also feel I have the full support and backing from my Superintendent and the Assistant to the Superintendent to restore our financial health.

Lastly, upon the creation of the 2009-2010 Budget I will be making the recommendation to fund an account in debt service labeled "Fund Balance Recovery." I will further recommend a 3-5 year plan to budget funds to restore the fund balance to a positive amount. I feel this will show the District's commitment to become fiscally sound while endorsing a philosophy of that commitment.

## Status of Prior Audit Findings and Observations

Our prior audit of the Canon-McMillan School District (CMSD) for the school years 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to Statements of Financial Interests. 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 CMSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the CMSD did implement recommendations related to statements of financial interest.

<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: Board Members Failed to File Statements of Financial Interests in Violation of the Public Official and Employee Ethics Act</i></u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of the District's solicitor in regard to the board's responsibility when a board member fails to file a Statement of Financial Interest.</li> <li>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.</li> </ol>	<p><b>Background:</b></p> <p>Two board members failed to file Statements of Financial Interests in 2004 and one board member failed to file in 2005.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District now maintains the Statements of Financial Interests in a separate file.</p> <p>All board members' Statements of Financial Interests are on file.</p> <p>Based on our current audit we concluded that the District <u>did</u> take corrective action to address this finding.</p>

## **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 Edward G. Rendell  
Governor  
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Harrisburg, PA 17120

The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
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333 Market Street

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
173 Main Capitol Building  
Harrisburg, PA 17120

Senator Andrew Dinniman  
Democratic Chair  
Senate Education Committee  
183 Main Capitol Building  
Harrisburg, PA 17120

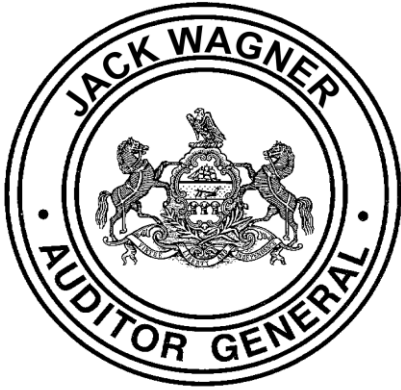
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